

Ownership Trends and Options

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THE VETERINARY IDEALIST



THE VETERINARY IDEALIST

About Me

- ▶ Pets Choice – “multicenter trials” to “why are your staff costs so high?”
- ▶ ACCES Seattle September 2003
- ▶ ACCES Renton September 2010
- ▶ Options and BluePearl 2013
- ▶ Mars sale and VCA purchase
- ▶ FTC
- ▶ Unions
- ▶ Non compete

GOALS

- ▶ **Consolidation Trends and drivers**
- ▶ **Other trends in marketing, start ups and sales**
- ▶ **Alternate business models**

JANUARY 4, 2017 BY ELIZABETH DAVIDOW

Why women veterinarians should own practices

Last year was interesting in the veterinary profession. A single family now owns a sizable percentage of the veterinary market (MARS – VCA, Banfield, Pet Partners, BluePearl). The transaction to purchase VCA was so large that the Federal Trade Commission reviewed the deal and only allowed it after a forced sale of 12 practices in cities where they deemed a monopoly would otherwise exist (<http://news.vin.com/VINNews.aspx?articleId=46420&callshare=1>). Throughout the industry, private equity and financial players are quickly purchasing practices. This consolidation is occurring as new veterinary graduates are finishing school with high debt loads and finding job prospects with tightening production contracts and non-competes.

I entered veterinary medicine as an idealist. I've wanted to be part of the profession since I was seven. After working for an early corporate

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<https://www.vin.com/members/cms/project/default/adv1.aspx?pld=21251>



THE VETERINARY IDEALIST

Thoughts on Ownership, Quality, Sustainability, and Community

The Silver Tsunami

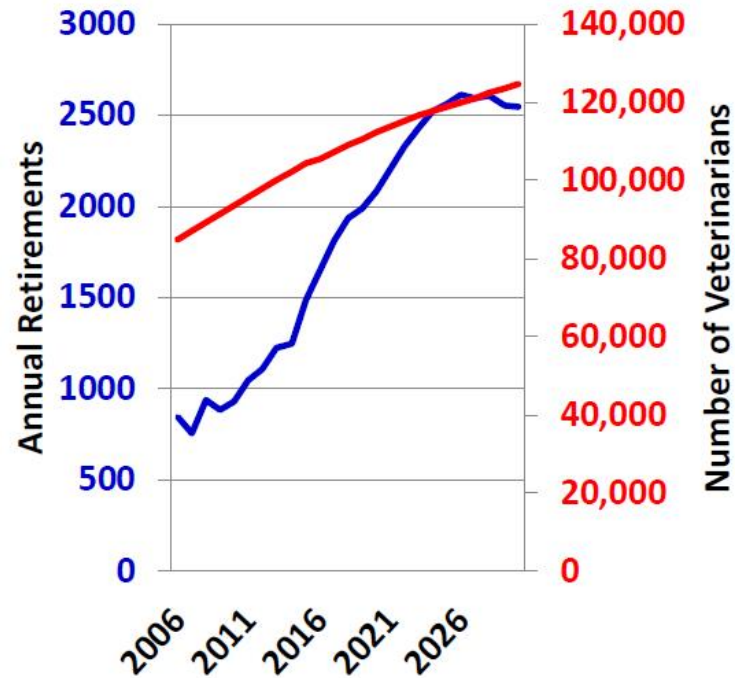
- ▶ 2017 – 57% of small businesses (\$100,000-\$10 million) are owned by people over 60 (Barlow Research Associates)
- ▶ 37% of small business owners want to transition ownership in the next five years

<https://www.fierceceo.com/human-capital/many-elderly-small-business-owners-are-putting-off-retirement>

The Silver Tsunami

One-Third of Veterinary Hospitals for Sale in Next Ten Years

Number of Veterinarians and Veterinary Retirements



Mean Age of Practice Owners by Practice Type, 2017

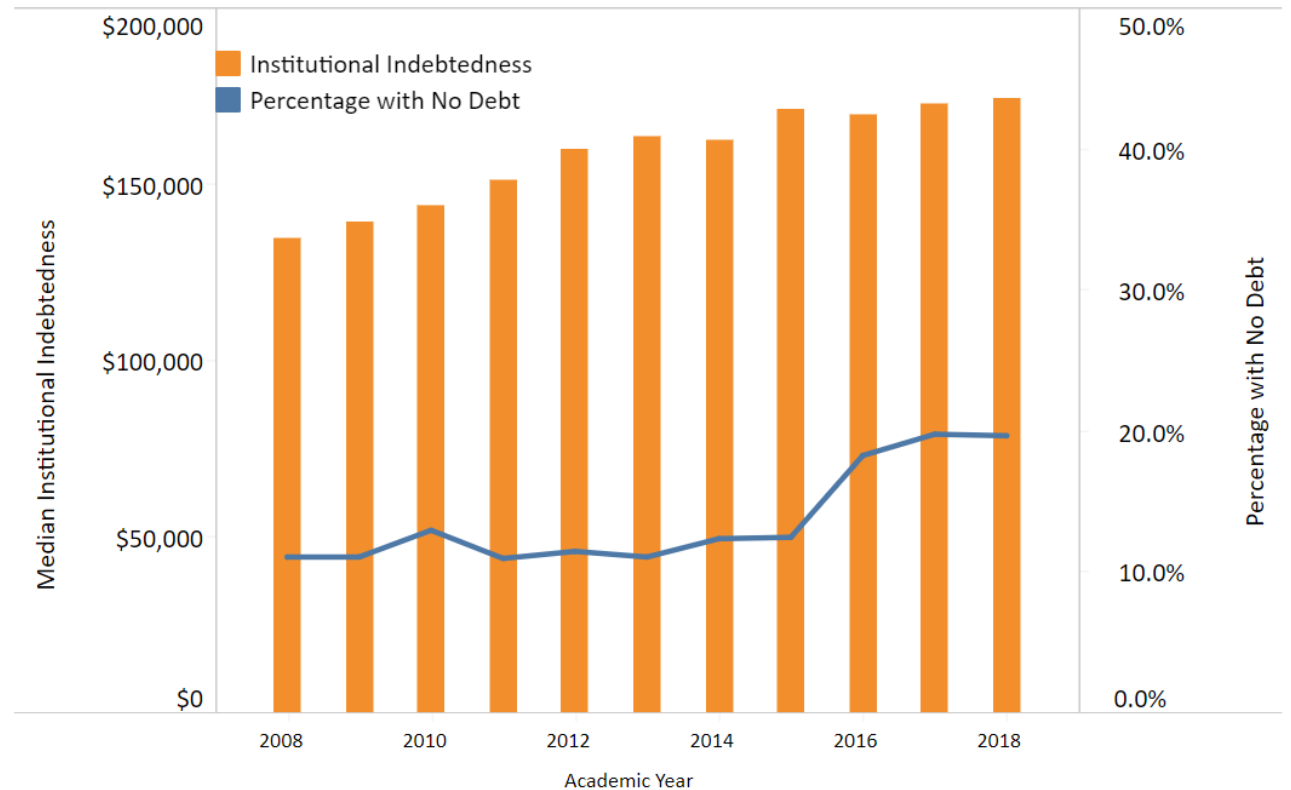
Practice Type	Mean
Other Species	66.3
Food Animal Predominant	64.5
Food Animal Exclusive	60.1
Companion Animal Predominant	61.5
Companion Animal Exclusive	60.7
Mixed Animal	62.3
Equine Predominant	52.1
Equine Exclusive	59.9

Veterinary Debt

- ▶ \$174,000 average debt for those with debt (2019 AAVMC Report)
- ▶ Average debt for those with indebtedness from Midwestern - \$327,339
- ▶ 2008 - \$134,000 (\$40,000 increase in 10 years)

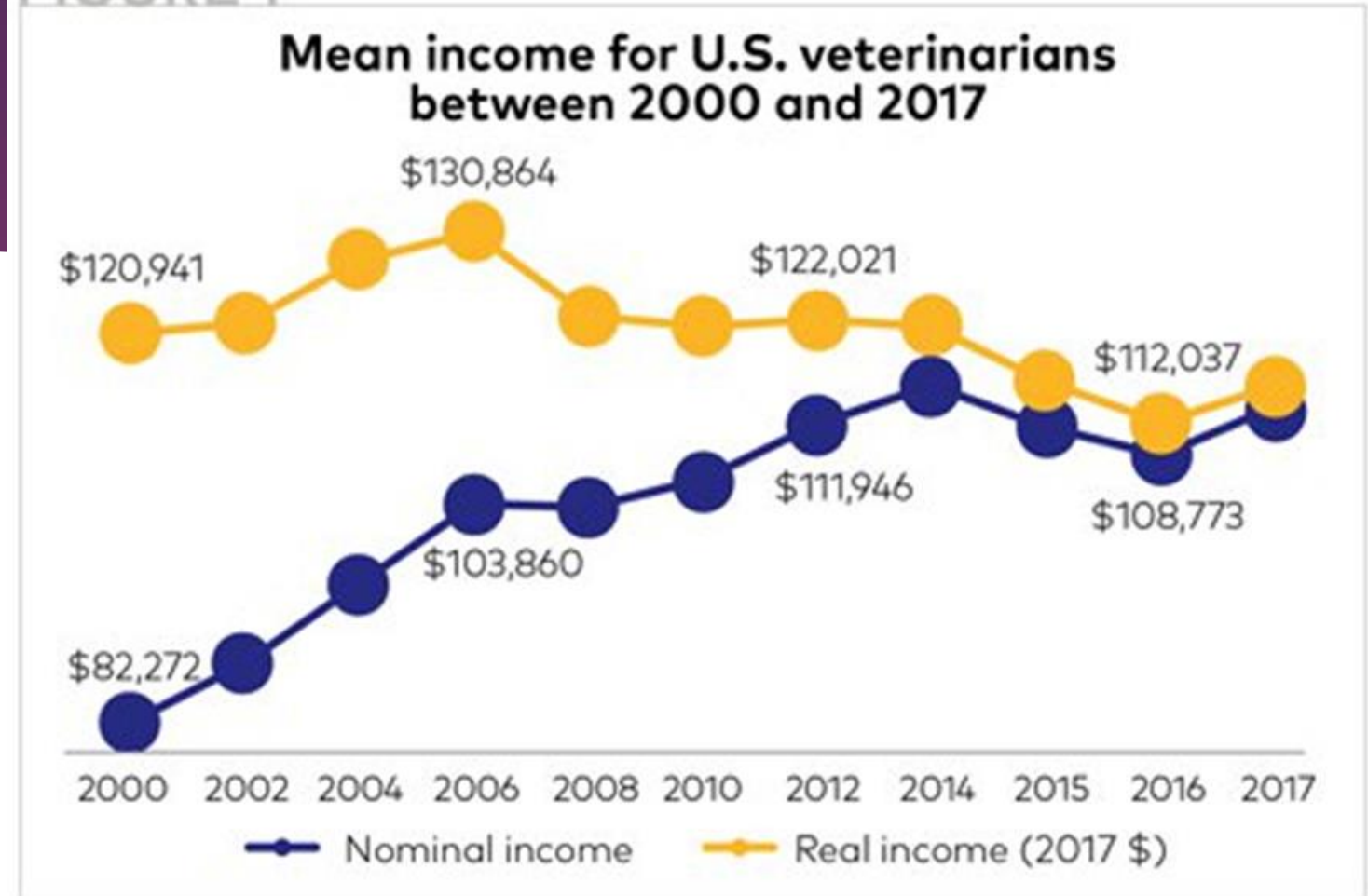


Mean Institutionally Reported Indebtedness at U.S. Colleges of Veterinary Medicine Internal AAVMC Data Reports 2019



Veterinary Salaries

FIGURE 1



<http://veterinarynews.dvm360.com/are-rising-veterinary-salaries-driving-cost-care>

The Role of Gender

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81.5% of veterinary students are women

61.6% veterinarians are women



CEOs of the largest Veterinary Chains -
Overseeing more than 3500 hospitals

Clockwise from the top left: Brian Garish (Banfield), Bob Antin (VCA Antech), Greg Hartman (NVA), Dan Adams (Vetcor), Gino Valpacchio (PetVet), Stephen Hadley (Pathway Partners), Don Blumenthal (BlueRiver PetCare), Jay Price (Southern Veterinary Partners), Kevin Ruffe (Community Veterinary Partners), Ted Sprinkle (Pet Partners), Darryl Shaw (BluePearl), John Payne (Compassion First), G Ames Prentiss (Ethos Vet), Linda Lehmkuhl (MedVet),

Gender impact on debt

Not only were the starting salaries of female veterinarians significantly lower than those for men in 2017, but new female veterinarians had an average debt load of \$9,149 more than new male veterinarians, up from \$7,030 more in 2016 and \$7,519 more in 2015. Female graduates have had higher veterinary college debt than their male counterparts throughout the period observed.

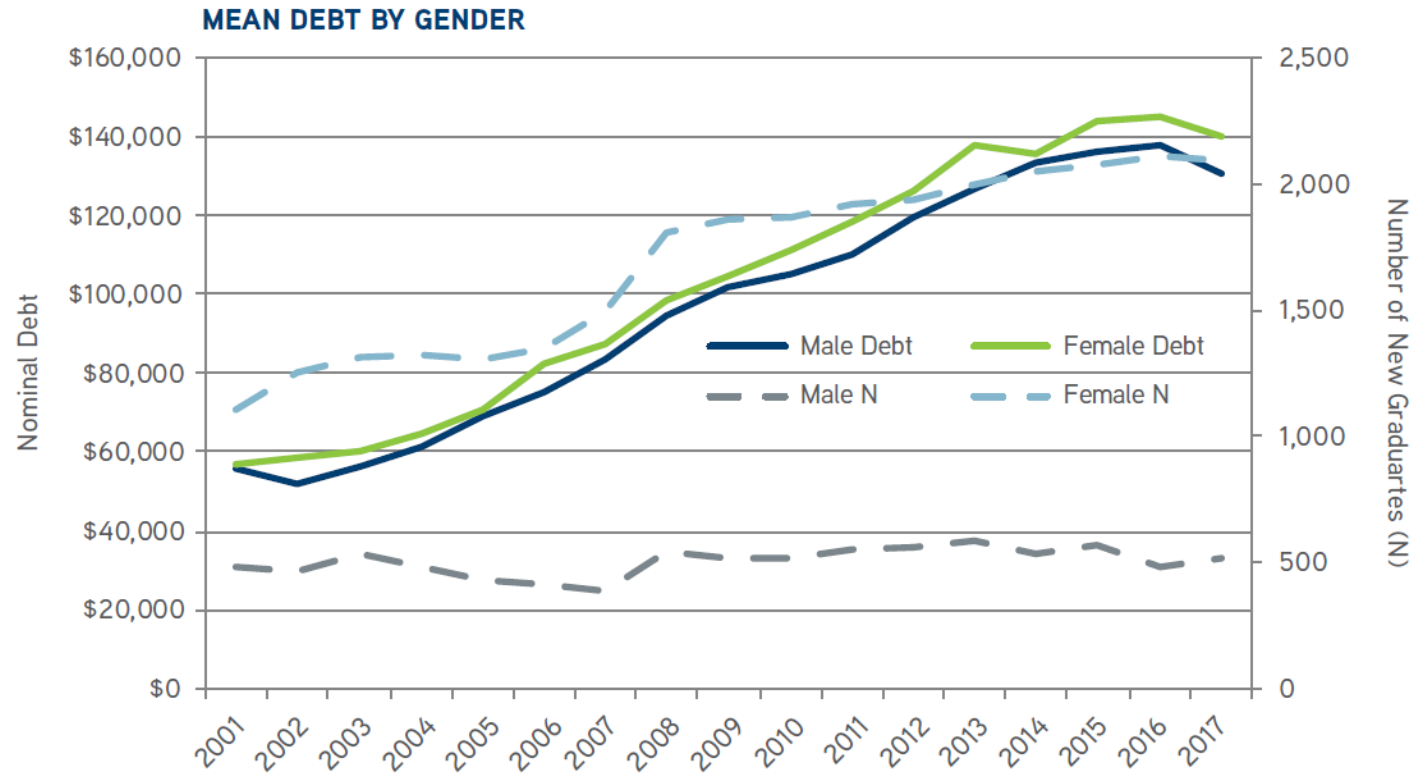


Figure 20

Gender Impact on Salary

STARTING NOMINAL MEAN SALARY BY GENDER



Source: AVMA Veterinary Economics Division

Gender

“Career progression often depends upon taking risks and advocating for oneself – traits that girls are discouraged from exhibiting”

- Sheryl Sandberg, LEAN IN

Why Veterinary Medicine

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- ▶ Highly fragmented
- ▶ Silver Tsunami/ Lack of business training
- ▶ Gender
- ▶ Cash business
- ▶ Low regulation
- ▶ Increasing amounts of money spent in pet industry
 - ▶ \$72.5 billion on petcare in 2018 (American Pet Products Association)
 - ▶ \$18 billion on veterinary care

Veterinary Ownership

- ▶ 31,200 veterinary businesses in the US
(factfinder.census.gov 2016)

Veterinary Ownership

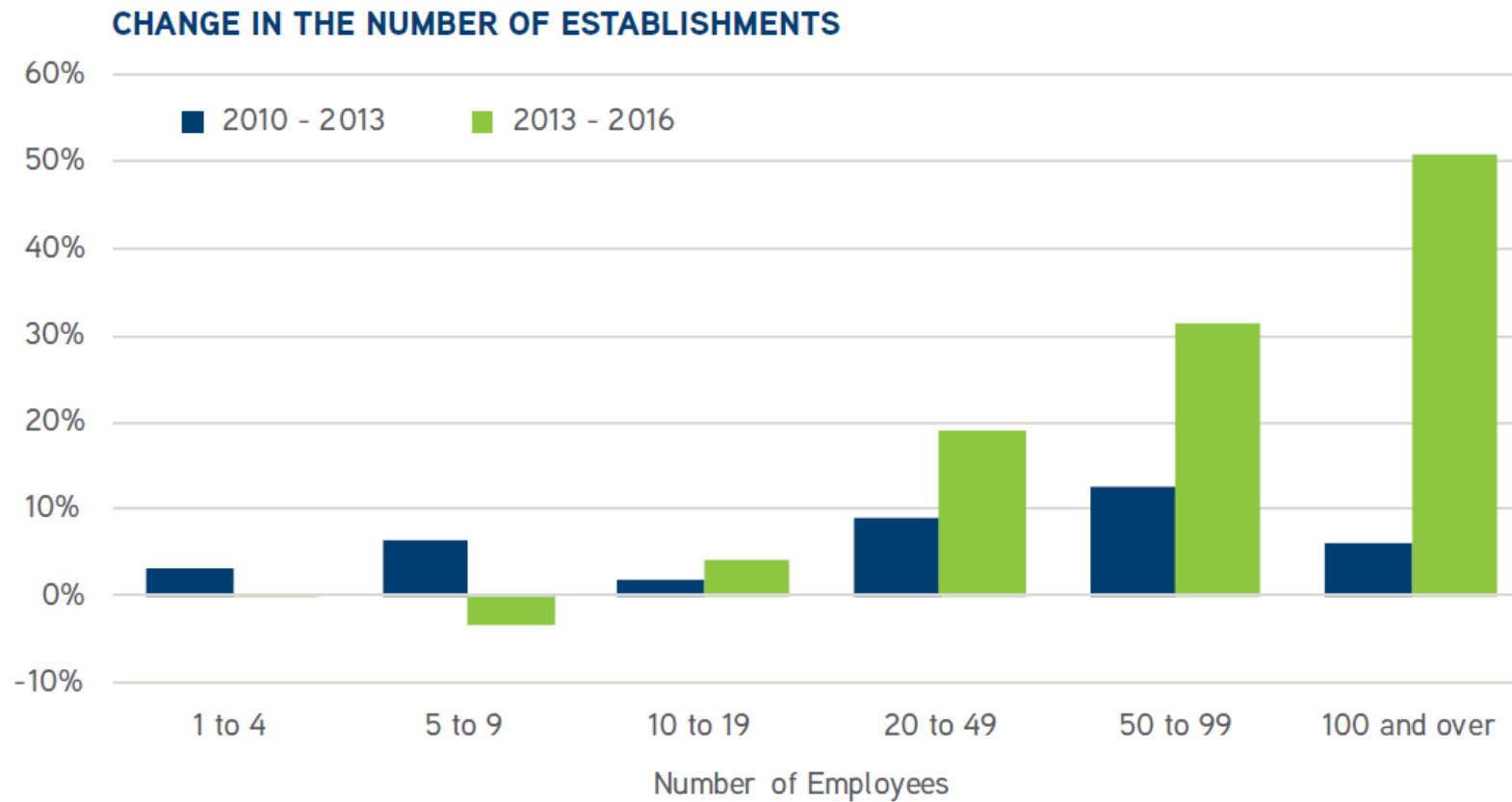


Figure 12

Consolidation

- ▶ Approximately 4100 hospitals owned by a large group
- ▶ Was 3850 in February - 7.2% change since beginning of the year
- ▶ 2000+ community clinics?
- ▶ If 31,000 hospitals, 13.2% all hospitals

Wealthy Families – MARS 3rd richest US

- ▶ Banfield – 1054
- ▶ VCA (includes CAPNA) – 801
- ▶ Pet Partners – 86
- ▶ BluePearl – 76

TOTAL 2017 hospitals



Victoria Mars – Mars is the 3rd richest family in America

Reimann Family – JAB Holdings 4th richest German Family

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- ▶ Panera Bread
- ▶ Keurig
- ▶ Krispy Kreme

- ▶ Compassion First - 41
- ▶ NVA – 539

TOTAL 580

Desmarais Family – 7th richest in Canada



Desmarais Family – Canada's 7th Richest Family
Lakefield Group

- ▶ Lakefield Veterinary Group (2017)
 - ▶ 42 hospitals

Private Equity/Investment Firms

- ▶ Money from funds and investors used to directly invest or buyout companies. The money is from individuals who are wealthy enough to be considered “accredited” or from institutional investors that invest for others.
- ▶ Short term horizon and are often looking to buy businesses, improve them with investments in needed equipment, improve their operations, and increase their net profit margin. The ultimate goal is to maximize the return on that initial investment and **re-sell the business for a profit within 5 to 7 years.**

Groups with Private Equity backing that sold to VCA

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- ▶ <https://news.vin.com/VINNews.aspx?articleId=32842>
- ▶ The Pet Practice 1996
- ▶ National PetCare Centers 2004
- ▶ Pets Choice 2005
- ▶ Healthy Pet 2007
- ▶ Pet DRx Crop 2010
- ▶ Brightheart 2011

Group	Founding Date	Number of Hospitals April 2017 (DVM 360)	Number of Hospitals February 2019	Number of Hospitals October 2019	Financial/Equity Partner
VetCor	1996	>200	308	338	Oak Hill Capital Partners(PE), Harvest Partners (PE), Cressey and Company (PE)
Pathway Veterinary Alliance	2003	35	186	217	Morgan Stanley (PE)
Thrive Affordable Vet Care	2014		46	67	Pathway, PetCo
PetVet Care Centers	2012	96	182	214	KKR (PE)
Mission Veterinary Partners (was Midwest Vet Partners)	2017		38	46	Shore Capital Partners (PE)
Southern Veterinary Partners	2014	20	73	89	Shore Capital Partners (PE)
BlueRiver Pet Care	2007	43	90	99	Partners Group, global private markets investment manager

TOTAL 1070

Group	Founding Date	Number of Hospitals April 2017 (DVM 360)	Number of Hospitals February 2019	Number of Hospitals October 2019	Financial/Equity Partner
Community Veterinary Partners	2009	27	56	61	Cortec Group (PE)
Veterinary Practice Partners	2011	35	55	56	Pamlico Capital (PE)
Amerivet Veterinary Partners	2017		15+	44	Imperial Capital (PE)
Alliance	2016		37	44	ZBS Capital
City Vets	1999		12	14	River Glade Capital
Obrien Veterinary Management, LLC	2009	10	13	10+	Steelwood Capital
The Pet Vet	2009		6	9	Partnership with Petco (5 more coming)
Vital Pet	2009	17	24	24	Undisclosed investors
Petwell Partners	2013	20	30+	undetermined	2017 financing – 59 separate investors - \$12.6 million
VetEvolve	2014	undetermined	9	undetermined	Undetermined
American Veterinary Group	2015	5	17	21	Latticework Capital (PE)
Innovetive PetCare	2015	11	14	16	Prospect Partners (PE)
Heartland Veterinary Partners	2016	undetermined	undetermined	undetermined	Tyree and D’Angelo Partners (PE)
People, Pets and Vets	2017		20	29	Cressey and Company (PE)
WellHaven PetHealth	2017		43	43	Capricorn Healthcare (PE)

TOTAL 410

Veterinary Controlled Large Groups

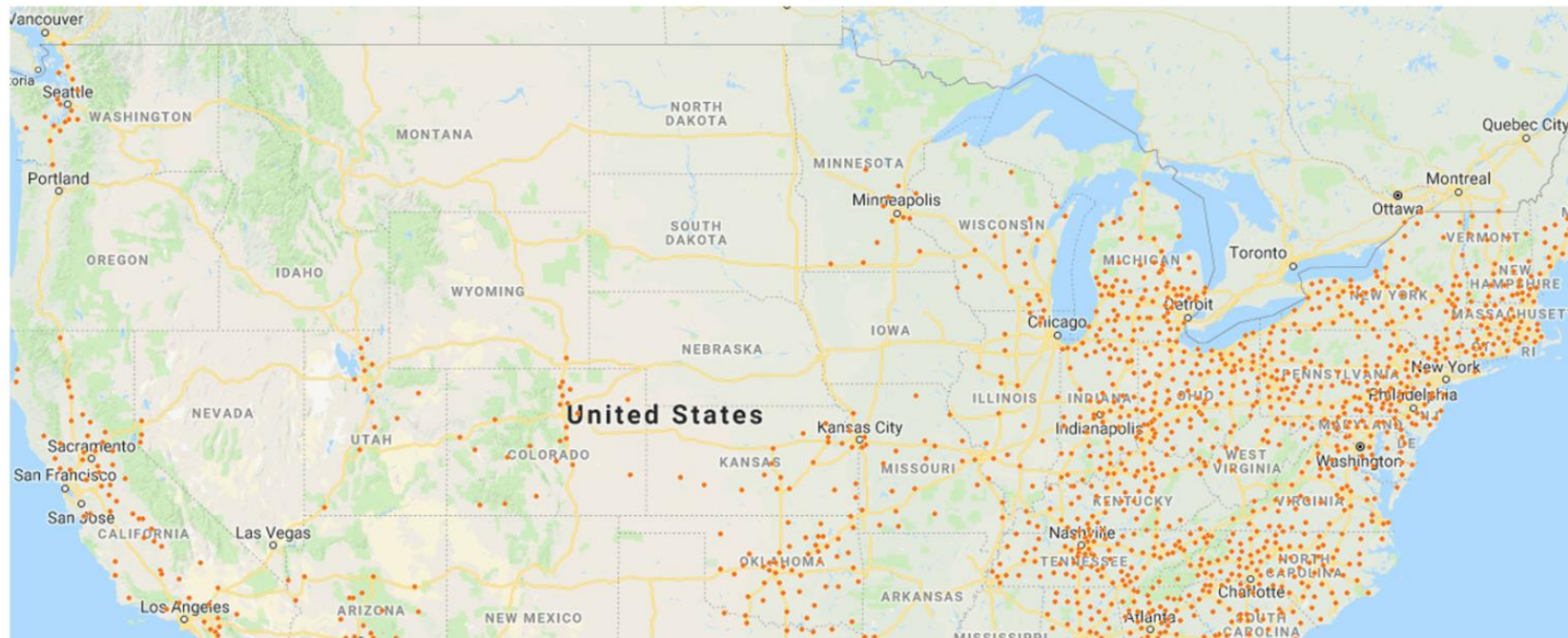
- ▶ MedVet – specialty (161 shareholders – 90% veterinarians)
- ▶ Ethos Veterinary Health – mostly specialty
- ▶ Animal Dermatology Clinics
- ▶ Dermatology for Animals
- ▶ Veterinary Emergency Group (VEG)
- ▶ Monroe Vet Associates, AZ Pet Vet, VetsPets, Noah's Animal Hospitals – regional
- ▶ CVCA Cardiac Care for Pets

Hospital financing and groups	Count of Hospital name	Percent
Brown Brothers Harriman	24	
Ethos Veterinary Health	24	5.2%
Chicago Pacific Founders	6	
SAGE	6	1.3%
Cortec	7	
Community Veterinary Partners	7	1.5%
Desmarais Family	7	
Lakefield	7	1.5%
Imperial Capital	2	
Amerivet	2	0.4%
JAB Holdings	67	14.5%
Compassion First	29	6.3%
NVA	38	8.2%
KKR	30	
PetVet Care	30	6.5%
MARS	145	31.3%
VCA	1	
BluePearl	76	16.4%
Pet Partners	9	
VCA	59	12.7%
Morgan Stanley	84	
Pathway	84	18.1%
Prospect Partners	3	
Innovetive	3	0.6%
Shore Capital	1	
Southern Veterinary Partners	1	

Number of Specialty Hospitals Owned by Groups with over 10 total locations

Stonehenge, Skyknight, Goldman Sachs	24	
Medvet	24	5.2%
Veterinary	62	13.4%
Animal Dermatology Clinic	9	
CVCA Cardiac Care for Pets	14	
Dermatology for Animals	21	
Monroe Vet Associates	1	
Noahs Hospitals/Mike Thomas	3	
VEG/David Bessler	11	
Vets Pets	3	
ZBS Capital	1	
Alliance Animal Health	1	0.2%
Grand Total	463	

PET IQ, Inc



- ▶ Publicly traded PETQ (NASDAQ)
- ▶ Vet IQ clinics – 24
- ▶ VIP Petcare – 5 wellness clinics
- ▶ PetVet – tractor supply company clinics (2700+/year)
- ▶ Also pet products
- ▶ 2019 Q2 – 30% growth year over year

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WE ARE
Morgan StanleyCREATE A LEGACY THAT LASTS
IN A MORGAN STANLEY MINUTE[Watch Now](#)**Business**

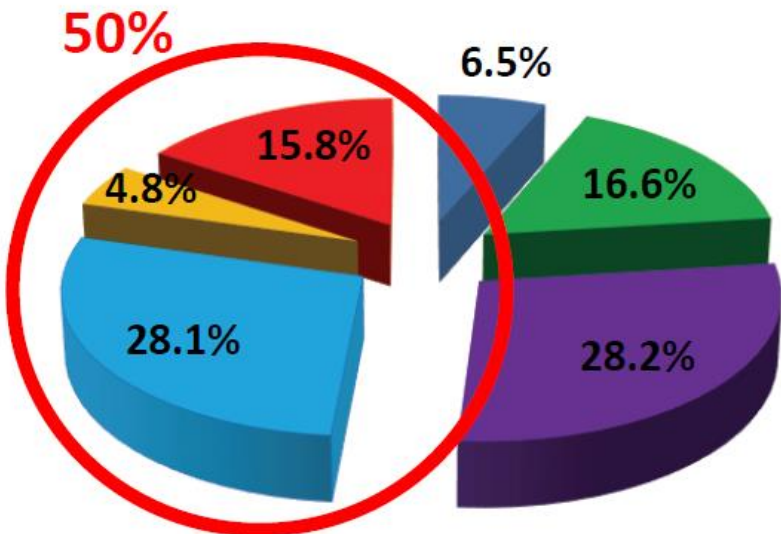
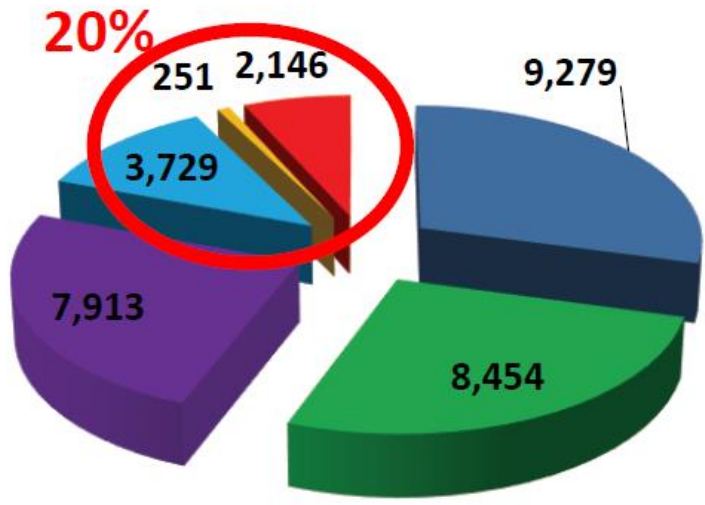
Walmart wants to fetch more pet business with in-store vet clinics and an online pet pharmacy

- VetIQ
- Essentials Pet Care (6 currently)

Increasing Concentration

Number of Firms

Market Share



- 1 to 4 employees
- 5 to 9 employees
- 10 to 19 employees
- 20 to 99 employees
- 100 to 499 employees
- 500 employees or more

AVMA Veterinarian Data/U.S. Bureau of Census

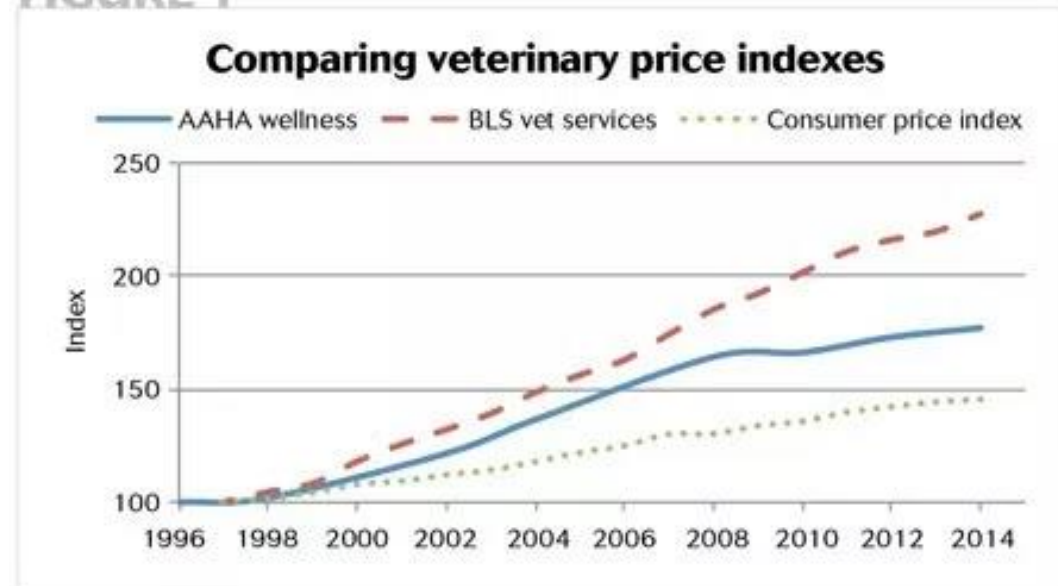


http://navc.com/download/2018_VMX_State_of_the_Profession_Presentation.pdf

Risks of Consolidation

- ▶ Veterinary Salaries
 - ▶ Non competes in markets
 - ▶ Staff costs are the largest cost in a veterinary hospital
- ▶ Prices to Pet Owners
 - ▶ Human hospital prices higher in “monopoly” markets
- ▶ Quality
 - ▶ Hard to measure

FIGURE 1



<https://vetidealist.com/impact-consolidation-price-quality/>

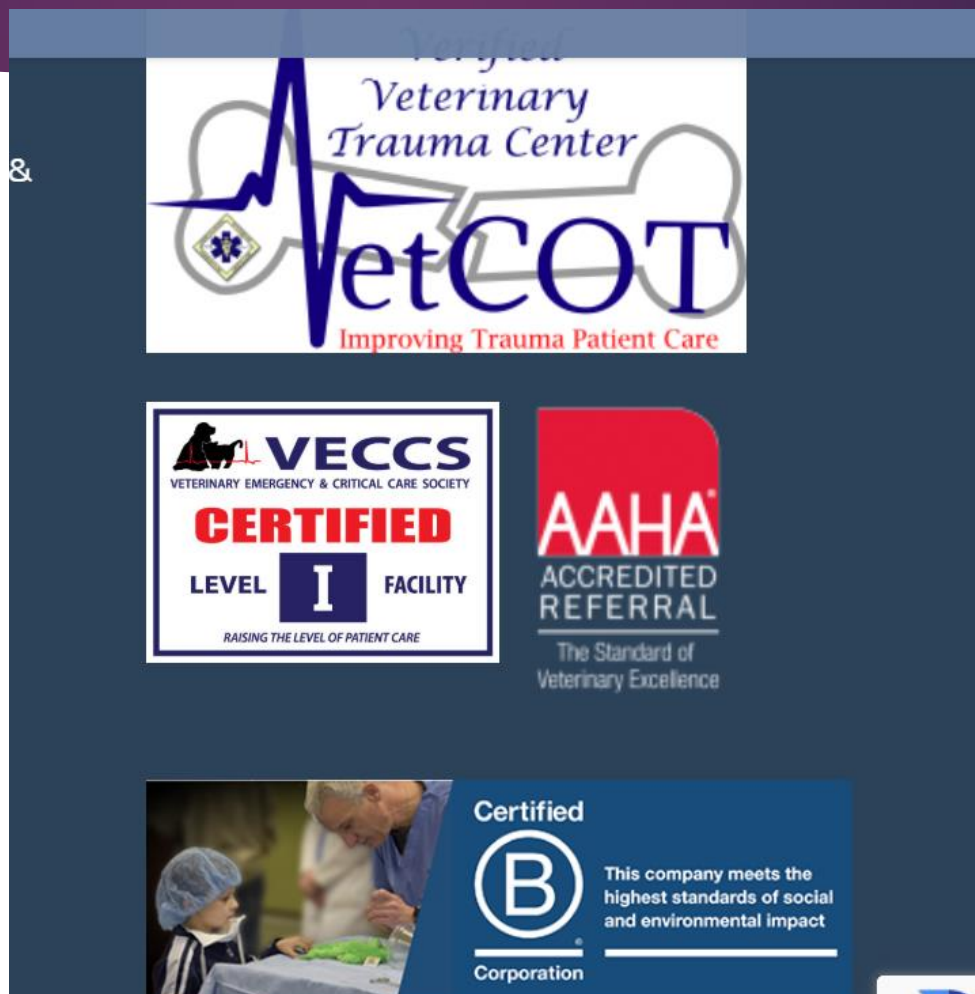
<https://www.hfma.org/healthcare2020/>

Veterinary Control

- ▶ Top Human Hospitals over all have MD CEOs
- ▶ 2011 study 100 best hospitals cancer, digestive and cardiovascular care
 - ▶ Quality scores 25% higher in physician run than in non physician run hospitals
 - ▶ Confirmed in study looking at another 12 specialties

<https://vetidealist.com/veterinarians-should-control-veterinary-hospitals/>

What quality independence looks like



U.S. Level One VECCS Facilities	City/ State	Ownership
Veterinary Speciality Hospital - San Diego	San Diego, CA	Ethos Veterinary Health
Wisconsin Veterinary Referral Center	Waukesha, WI	Ethos Veterinary Health
Fresno Veterinary Specialty & Emergency Center	Fresno, CA	JAB holdings
Charleston Veterinary Referral Center	Charleston, SC	JAB holdings
Allegheny Veterinary Emergency Trauma & Specialty (AVETS)	Monroeville, PA	JAB holdings
BluePearl Veterinary Partners - Renton	Renton, WA	MARS
BluePearl Veterinary Partners - Seattle	Seattle, WA	MARS
MedVet Chicago	Chicago, IL	Medvet
Advanced Veterinary Care	Salt Lake City, UT	Morgan Stanley/Pathway
Central Hospital For Veterinary Medicine	North Haven, CT	private
Center for Animal Referral and Emergency Services (CARES)	Langhorne, PA	private
Maine Veterinary Medical Center	Scarborough, ME	private
NorthStar VETS	Robbinsville, NJ	private
Lakeshore Veterinary Hospital	Glendale, WI	private
Fox Valley Animal Referral Center	Appleton, WI	private
Oakland Veterinary Referral Services	Bloomfields Hills, MI	private
Veterinary Speciality Center - Buffalo Grove	Buffalo Grove, IL	private
The Animal Medical Center	New York, NY	non profit
Angell Animal Medical Center	Boston, MA	non profit
DoveLewis Emergency Animal Hospital	Portland, OR	non profit
Tufts Veterinary Emergency Treatment Specialties	Walpole, MA	University
Ryan Veterinary Hospital, Univ of Pennsylvania	Philadelphia, PA	University
University of Florida Small Animal Hospital	Gainesville, FL	University
Cornell University Veterinary Specialists	Stanford, CT	University

Selling Your Business

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According to the Exit Planning Institute, **75%** of business sellers experience profound regret within one year of the sale.

<http://exit-planning-institute.org/blog/small-business-owner-readiness/>

What Matters to You?

- ▶ Highest financial return on investment?
- ▶ Legacy Practice?
- ▶ Place in the Community?
- ▶ Quality of Medicine?
- ▶ Long term viability?
- ▶ Next veterinary generation?

Look for highest PERSONAL VALUE which may not be a cash number

Owner Age at Sale

- ▶ Planning to Stay
 - ▶ Understand and document your level of authority (equipment, hire/fire, what decisions, etc)
 - ▶ Understand true open roles in administration
- ▶ Understand your non compete!
 - ▶ Does it change in a second sale?
 - ▶ What is really carved out?

Sale to Whom

- ▶ Associates
- ▶ Veterinarians who have sold one company, ready to start another
- ▶ Key employees
- ▶ All employees
- ▶ Combinations
- ▶ Group

Sell. . .but not all



IMPORTANT PRESS RELEASE

ANIMAL MEDICAL CENTER OF SEATTLE ANNOUNCES: WE'RE MOVING TUESDAY, OCTOBER 29TH!

Shoreline, WA Release: October 15th, 2019. For Immediate Release

The Animal Medical Center of Seattle (AMCS) wishes to officially announce that **we will be moving to a new, state-of-the-art facility only a mile and a half north of our current location the morning of Tuesday, October 29th**. The Animal Medical Center of Seattle will continue to be a fully staffed,

Back to Origins

- ▶ Local independent clinics invest again in Hub hospitals?
- ▶ Departmental ownership?

Two Separate Organizations – with two types of buy in

40

- ▶ Doctors Groups
- ▶ Managed Services Organization

Female Owners looking to sell

- ▶ Who will be your boss?
- ▶ Culture of the organization?
- ▶ How many questions do people ask of you during the negotiation? (willingness to listen and learn)

The Independent Bookstore Story

Between 2009-2015, **35% INCREASE** in the number of Independent bookstores

- Community
- Curating
- Convening
- American Booksellers Association

<https://hbswk.hbs.edu/item/why-independent-bookstores-haved-thrived-in-spite-of-amazon-com>.



Counter Trends

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INDEPENDENT VETERINARY PRACTITIONERS ASSOCIATION

- 390 practices
- 42 states
- Interactive map

The impact of Non competes and Sales

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OUR PRACTICE

Locally-Owned, Community-Connected

Smart & Sensible Veterinary Care

Urban Animal is a local, independent veterinary care clinic, with Our veterinarians and staff all have extensive experience in the

****MARS noncompete
Ends November 2020**

Welcome to Veterinary Cancer & Surgery Specialists,
Oregon's new local and privately owned cancer and
surgery hospital.

Independent Pharmacies

- ▶ Independent pharmacies still represent a significant portion of U.S. pharmacies, and no single pharmacy chain has more stores than all independents, which represented 35% of all retail pharmacies and a \$77.6-billion marketplace in 2017, says B. Douglas Hoey, RPh, MBA, CEO of the NCPA.
- ▶ “In many ways the market remains hungry for the kind of services independent community pharmacies provide that big box stores are not equipped for,” he says. **“Community pharmacists don’t have to wade through corporate red tape or run things by a distant corporate office. They can make decisions that work for them and their patients.”** – Doug Hoey

Independent Pharmacies – tips for success

- ▶ Find Your Niche
- ▶ Consider New Revenue Sources
- ▶ Be Convenient
- ▶ Educate Your Customers
- ▶ Keep It Simple

<https://vetidealist.com/independent-pharmacies-part-one/>

<https://firstbanksba.com/knowledge-center/resource/independent-pharmacy-overview-part-two/>

Independent Pharmacies - Cooperatives

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- ▶ CARE Pharmacies – fastest growing pharmacy group in 2012, 20% growth in 2016
 - ▶ Cooperative of independent pharmacies
 - ▶ Cooperatively owned central office does purchasing, equipment, HR
 - ▶ Owned BY the pharmacies, not an outside group



The Veterinary Cooperative (TVC)

- Purchasing Group
- Owned by its member veterinary practices
- Practices have to have at least 51% independent ownership

ESOPs

- ▶ 6460 Companies in the US in 2016
 - ▶ \$1.4 trillion in assets
 - ▶ Productivity increases of 4-5% in the year an ESOP is adopted
 - ▶ Sales increases are higher with not just ESOP but more participatory management
 - ▶ PUBLIX Supermarkets – 200,000 employees
 - ▶ WL Gore and Associates
 - ▶ Davey Tree Experts
 - ▶ <http://www.vsi.cc/about-us/>
 - ▶ <https://unionlakeveterinaryhospital.com/>
- <https://www.ksmcpa.com/blog/partial-esop-ownership-as-an-exit-strategy>

ESOPs

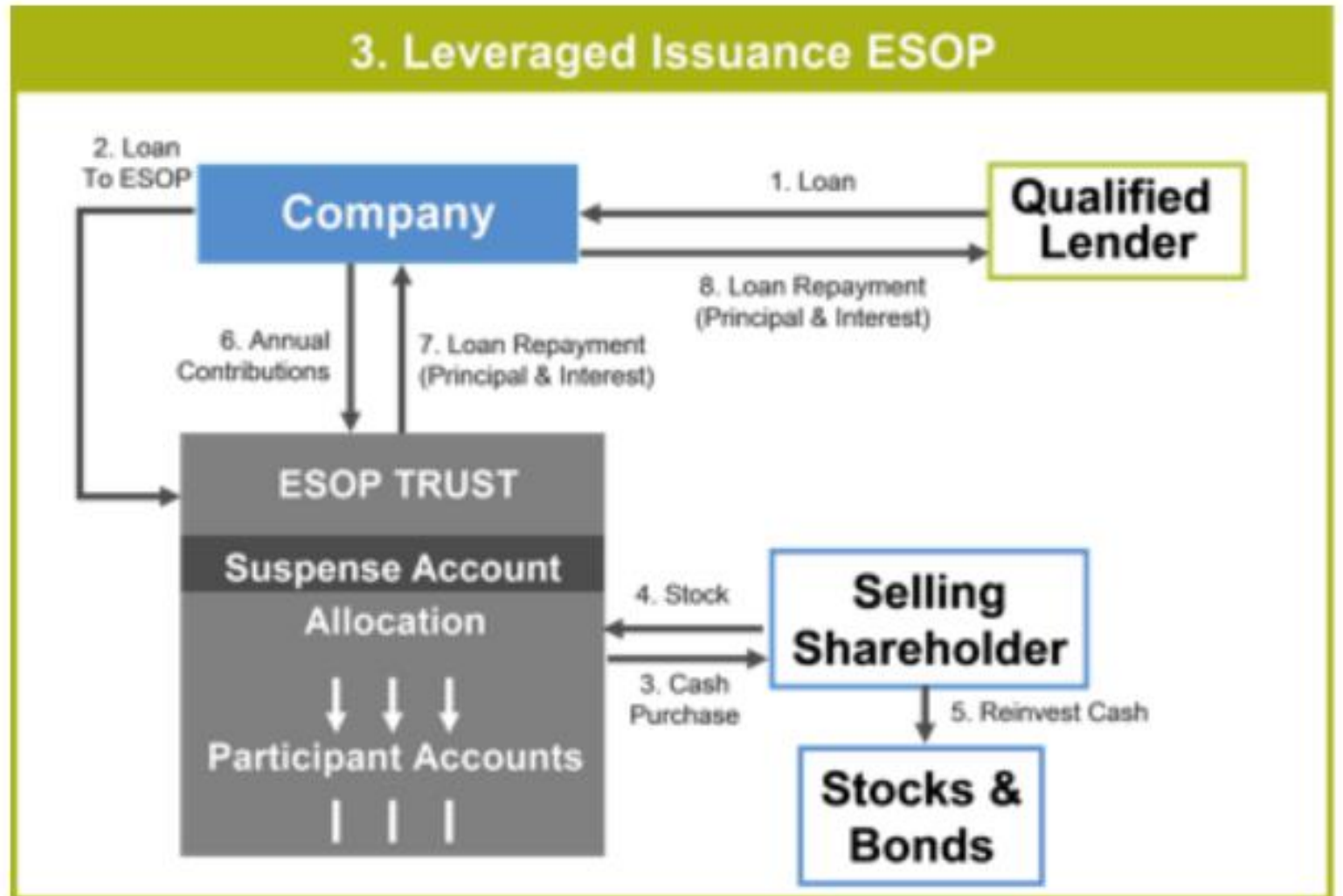
- ▶ ESOP companies have 2.5% higher growth, sales and productivity than non-ESOP companies
- ▶ Lower employee turnover AND can be used as a recruitment tool
- ▶ Tax advantages
 - ▶ Qualified retirement property rollover for sellers
 - ▶ Contributions to the ESOP to pay principal AND interest on loan are tax deductible

ESOP Details

- ▶ Trust holds the shares and trustee votes the employee's shares
- ▶ Purchase price for shares needs to be at fair market value
- ▶ Has to be available to all employees over 21 who have been at the company for more than a year
- ▶ Shares can be divided proportionally based on employee income
- ▶ Usual vesting over 6 years
- ▶ Often set a payout schedule over several years so not a hit all at once
 - ▶ Need to look at employee pool and watch for “retirement” cash flow potential crunches

ESOP Financing

3. Leveraged Issuance ESOP



ESOP Financing

$$\text{Debt Coverage Ratio} = \frac{\text{EBITDA} - \text{Capital expenses}}{\text{Annual Principal} + \text{interest}}$$

- ▶ Banks want over 1 at a minimum
- ▶ Practice has to have a FAIR value, not the maximum someone might pay
- ▶ Only a plan that works if you have equity – not if you are already highly leveraged

ESOP Financing - Example

Assumptions:

- ▶ Current Revenue \$10 million
- ▶ EBITDA - \$1.5 million
- ▶ Practice value (7x EBITDA) - \$10.5
- ▶ Need to sell 30% to get tax benefits for the company and the seller
- ▶ Loan 30% (\$3.15 million) – 6% interest, 10 year loan

Year	1
Revenue	10000000
Expenses	<u>8500000</u>
Profit (15%)	1500000
Capital Expenses	<u>100000</u>
Profit after capital expenses	1400000
ESOP loan and principal	<u>-552203</u>
Profit that is now taxed	847797
Taxes (25%)	<u>211949</u>
Remaining after taxes	635847
20% reinvestment	<u>127169</u>
Amount for dividends	508678
Per 100 shares	5087
For owner (70% start)	356075
For ESOP	152603
Tax "credit" for reinvestment	38151
Total for share buy back	190754
Starting Share value \$105,000	107100
ESOP share buyback	1.78
ESOP share number	31.78
Owner share number	68.22

Year	1	2	3	4	5	6	7	8	9	10
Revenue	10000000	10200000	10404000	10612080	10824322	11040808	11261624	11486857	11716594	11950926
Expenses	<u>8500000</u>	<u>8670000</u>	<u>8843400</u>	<u>9020268</u>	<u>9200673</u>	<u>9384687</u>	<u>9572381</u>	<u>9763828</u>	<u>9959105</u>	<u>10158287</u>
Profit (15%)	1500000	1530000	1560600	1591812	1623648	1656121	1689244	1723029	1757489	1792639
Capital Expenses	<u>100000</u>	<u>102000</u>	<u>104040</u>	<u>106121</u>	<u>108243</u>	<u>110408</u>	<u>112616</u>	<u>114869</u>	<u>117166</u>	<u>119509</u>
Profit after capital expenses	1400000	1428000	1456560	1485691	1515405	1545713	1576627	1608160	1640323	1673130
ESOP loan and principal	<u>-552203</u>	<u>-552203</u>	<u>-552203</u>	<u>-552203</u>	<u>-552203</u>	<u>-552203</u>	<u>-552203</u>	<u>-552203</u>	<u>-552203</u>	<u>-552203</u>
Profit that is now taxed	847797	875797	904357	933488	963202	993510	1024424	1055957	1088120	1120926
Taxes (25%)	<u>211949</u>	<u>218949</u>	<u>226089</u>	<u>233372</u>	<u>240800</u>	<u>248377</u>	<u>256106</u>	<u>263989</u>	<u>272030</u>	<u>280232</u>
Remaining after taxes	635847	656847	678267	700116	722401	745132	768318	791967	816090	840695
20% reinvestment	<u>127169</u>	<u>131369</u>	<u>135653</u>	<u>140023</u>	<u>144480</u>	<u>149026</u>	<u>153664</u>	<u>158393</u>	<u>163218</u>	<u>168139</u>
Amount for dividends	508678	525478	542614	560093	577921	596106	614654	633574	652872	672556
Per 100 shares	5087	5255	5426	5601	5779	5961	6147	6336	6529	6726
For owner (70% start)	356075	358475	359796	359899	358631	355821	351280	344799	336145	325060
For ESOP	152603	167003	182818	200193	219290	240285	263375	288775	316727	347496
Tax "credit" for reinvestment	38151	41751	45704	50048	54823	60071	65844	72194	79182	86874
Total for share buy back	190754	208753	228522	250242	274113	300356	329218	360969	395909	434370
Starting Share value \$105,000	107100	109242	111427	113655	115928	118247	120612	123024	125485	127994
ESOP share buyback	1.78	1.91	2.05	2.20	2.36	2.54	2.73	2.93	3.16	3.39
ESOP share number	31.78	33.69	35.74	37.94	40.31	42.85	45.58	48.51	51.67	55.06
Owner share number	68.22	66.31	64.26	62.06	59.69	57.15	54.42	51.49	48.33	44.94



Year	11	12	13	14	15	16	17
Revenue	12189944	12433743	12682418	12936066	13194788	13458683	13727857
Expenses	<u>10361453</u>	<u>10568682</u>	<u>10780055</u>	<u>10995656</u>	<u>11215569</u>	<u>11439881</u>	<u>11668678</u>
Profit (15%)	1828492	1865061	1902363	1940410	1979218	2018803	2059179
Capital Expenses	<u>121899</u>	<u>124337</u>	<u>126824</u>	<u>129361</u>	<u>131948</u>	<u>134587</u>	<u>137279</u>
Profit after capital expenses	1706592	1740724	1775539	1811049	1847270	1884216	1921900
ESOP loan and principal							
Profit that is now taxed	1706592	1740724	1775539	1811049	1847270	1884216	1921900
Taxes (25%)	<u>426648</u>	<u>435181</u>	<u>443885</u>	<u>452762</u>	<u>461818</u>	<u>471054</u>	<u>480475</u>
Remaining after taxes	1279944	1305543	1331654	1358287	1385453	1413162	1441425
20% reinvestment	<u>255989</u>	<u>261109</u>	<u>266331</u>	<u>271657</u>	<u>277091</u>	<u>282632</u>	<u>288285</u>
Amount for dividends	1023955	1044434	1065323	1086630	1108362	1130529	1153140
Per 100 shares	10240	10444	10653	10866	11084	11305	11531
For owner (70% start)	460149	412971	358085	294522	221202	136910	40287
For ESOP	563806	631463	707238	792107	887160	993619	1112853
Tax "credit" for reinvestment	140952	157866	176810	198027	221790	248405	278213
Total for share buy back	704758	789329	884048	990134	1108950	1242024	1391067
Starting Share value \$105,000	130554	133165	135829	138545	141316	144142	147025
ESOP share buyback	5.40	5.93	6.51	7.15	7.85	8.62	9.46
ESOP share number	60.46	66.39	72.90	80.04	87.89	96.51	105.97
Owner share number	39.54	33.61	27.10	19.96	12.11	3.49	-5.97



Other Details

- ▶ Does not take into account those who vest in and leave
- ▶ Works best for Corporations, trickier for LLC (see appendix A slide)
- ▶ Veterinary hospital ownership rules for your state (Managed service organization)
- ▶ ESOP can opt to sell to a corporation
- ▶ **Need an ESOP attorney AND an ESOP management firm
- ▶ \$50,000-100,000 likely to set up

Appendix A - ESOP Rules for LLCs

- ▶ The LLC has elected to be taxed as a corporation.
- ▶ The LLC issues ownership interests to its members in the form of unit shares.
- ▶ The unit shares allocate profits and losses in proportion to the number of unit shares held by each “shareholder.”
- ▶ Distributions (i.e., dividends) on unit shares are paid in proportion to the outstanding unit shares.
- ▶ The unit shares have identical liquidation rights.
- ▶ The unit shares have identical voting rights.
- ▶ The unit shares have the greatest voting and dividend rights of any class of unit shares issued by the LLC.

Questions?