


## Build or Buy – What is the Better Option for Ownership?

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## Goals for All Practice Owners

- Viable, successful, thriving practice.
- Good clients
- Quality Staff
- Warm, friendly environment
- Practicing good, quality medicine
- Still have enough time for family, self.



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## Goals for All Practice Owners

- Financially successful
- Comfortable lifestyle
- Value of practice growing
- On track for retirement, no matter how far off
- Building legacy
- Practice is something you can be proud of




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## Which path to take?



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## Items to Consider...

If you're buying

- The buying process – start to finish
- Knowing if the practice is a match
- Measuring potential
- Understanding the value of the veterinary practice you're buying
- Financing



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## Items to Consider...

### If you're buying

- Terms of the transaction - Know what you want
- Feasibility analysis – does the practice work financially?
- Choosing the right entity
- Tax ramifications
  - Allocation of purchase price

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## Items to Consider...

### If you're buying

- Legal documents you'll need
- Due Diligence
- Transition – taking over the practice smoothly
- Getting ready to lead

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## Items to Consider...

### If you're starting from scratch

- The start-up process, start to finish
- Do you have what it takes?
- Cash flows and projections – guess work and wishful thinking
- Build outs and equipment – not enough or too much?

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## Items to Consider...

### If you're starting from scratch

- Financing
- Transition
- Marketing
- Opening for business

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## Real Life Stories

### Buyer #1

- Knew which area she wanted to live and work in
- Did relief work in different practices to get a feel
- Actively looked until she found the right practice
- Saved money
- Kept her credit scores top notch
- Saw potential and room to improve in practice

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## Real Life Stories

### Buyer #1

- Hired right consulting and legal team
- Made clear the terms that she wanted
- Wasn't in a rush to buy
- Performed due diligence
- Buyer paid fair price, practice has averaged 5% growth over last three years
- Happy Ending

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## Real Life Stories

### Buyer #2

- Didn't work in practice
- No down payment
- Credit scores were so-so
- Didn't perform own valuation to verify asking price



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## Real Life Stories

### Buyer #2

- Wanted to save money, didn't hire right attorney
- In a rush to buy
- Performed no due diligence
- Buyer paid too much, practice has averaged -1.5% growth over last three years
- Unhappy Ending



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## Real Life Stories

### Start Up #1

- Knew what area she wanted to live and work
- Found good spot with potential, lack of competition
- Did demographic study – results were positive
- Saved money
- Kept her credit scores top notch
- Didn't over do it – build out or equipment



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## Real Life Stories

### Start Up #1

- Held out and got good lease and good financing
- Did three years worth of projections – proving that this could work
- Wasn't afraid to pay for much needed marketing
- Practice performed higher than expectations, was profitable by month 8
- Happy Ending



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## Real Life Stories

### Start Up #2

- Knew what area she wanted to live and work
- Found good spot with potential, lack of competition
- Did demographic study – results were ok
- Didn't have much money
- Kept her credit scores top notch
- Built for five years from now, instead of just now



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## Real Life Stories

### Start Up #2

- Leased too much space, bad terms
- Did three years worth of projections – needed unrealistic revenue growth to make work
- Over budget, skimped on marketing
- Practice performed lower than expectations, was profitable by month 14...barely. Still struggling.
- Unhappy Ending



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## What Does it Take to be an Owner

## What Does it Take to Be an Owner?

- Excellent medical skills
- Excellent interpersonal skills
  - Motivation
  - Leadership
  - Ability to work as part of a team
  - Communication
- Entrepreneurial skills
  - Initiative
  - Problem solving

## What Does it Take to Be an Owner?

- Financial and business skills
  - Knowledge
  - Financial prudence
- Other
  - Stamina and good health
  - Time
  - Courage and risk tolerance
  - High ethical standards

## Reasons

### Buying

- Ready to take command
  - Tired of being just an associate
  - Tired of taking orders
  - Lots of good ideas for running a practice
  - Believe current owner is lacking
  - Fulfill life long dream

## Reasons

### Buying

- Financial
  - Want more than just salary
  - Want equity
  - Want income and value growth
  - Want all those owner perks you've read about
  - Want to own real estate

## Reasons

### Buying

- Want to build something
  - Practice to call your own
  - Quality staff you enjoy working with
  - Top notch clientele that you're honored to serve
  - In a community you're proud to be a part of

## Reasons

### Buying

- Ready to take it on
  - Experience and knowledge
  - Family support
  - Energy
  - Physical shape

## Reasons

### Starting from Scratch

- Dream
  - Something you've always wanted
  - Create a self portrait

## Reasons

### Starting from Scratch

- Nothing out there to buy
  - Have looked and looked
  - Nothing for sale in area
  - Nothing for sale in price range
  - Tired of waiting

## Reasons

### Starting from Scratch

- Found perfect spot
  - City/street/corner/space
  - Demographics
  - Lack of competition
  - Niche

## Reasons

### Starting from Scratch

- Financial
  - Have the money to do it right
  - Why pay for goodwill?
  - Personal cash flow can withstand lean years
  - Family backing

## Reasons

### Starting from Scratch

- Large following
  - Work in area
  - Owner won't sell to you
  - Itchy to be own boss
  - Staff

## Finding the right place to buy



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## Options-Buy The Practice You Are Working In

- Common sale type
- Greatest opportunity to know if practice is the right fit
- Easier transition to management
- Easier goodwill transfer, assuming you know most clients
- If the owner continues to work in the practice after you buy it, it can be difficult to establish yourself as the owner or to make changes



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## Options-Buy The Practice You Are Working In

- Lock in timeframe for real estate purchase at time of practice purchase
- This may be financed by owner or by outside lender—doesn't really matter to you as long as terms are fair
- Plan on fair market value financing terms for owner financing



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## Options-Buy The Practice You Are Working In

- Don't rely on your friend the seller to take care of you or to make sure the deal is fair—get your own advisors and listen to them
- Insist on all the same documents you would do if you didn't know the other party—don't get lax because it's a friendly deal—these can go sour



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## Options-Buy a Portion Of Practice You Are Working In

- Also common sale type—easiest if you can manage it
- Immediate cash flow
- Greatest opportunity to know if practice is the right fit
- Good way to ease into management gradually
- Can be difficult to establish yourself as an owner or to make changes



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## Options-Buy a Portion Of Practice You Are Working In

- Lock in timeframe for rest of practice purchase as well as for real estate purchase at time of initial purchase
- A partial associate buy-in is a very attractive option to the owner of a C corp.
- Seller generally carries note because doesn't want to give lender lien on 100% of practice assets



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## Buyers – Finding a Seller

- Look everywhere
  - Periodical ads
  - Networking
  - Brokers
- Spend time in the practices
  - Relief work
  - Emergency clinic work
  - Extended interviews before accepting a job
  - Due diligence before buying
  - Talk to people



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## Making decision to Start Practice from Scratch



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## Start Your Own Practice

- Generally makes more sense to buy a practice if you can find one that is right for you
- Starting a practice will take a lot of time and hard work
- Decent financing is available
- May not make enough money for owner to take a salary in the first year



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## Start Your Own Practice

- Theoretically have the option to do exactly what you want, but will be limited by how much you can get in financing and how well the practice cash flows
- Need to look carefully at demographics
- Need to put together a business plan



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## Starter Uppers – Finding a Location

- Where?
  - City/Neighborhood/Street
    - Where you want to live and work?
    - Demographics favorable
    - Business friendly?
    - Lack of competition
    - Pool of staff to draw from
    - Near where you work now?
    - Visibility
    - Good Traffic?



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## Starter Uppers – Finding a Location

- Key Question
  - Why will you succeed in this location?



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## Terms – Buyer

- What do you want?
  - Price for Practice
    - Valuation number?
    - Sweat Equity discount?
  - How do you want to pay?
    - May need seller's help to get financing
    - Down payment?
    - If owner financing, what loan terms?
    - Timing of transaction?



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## Terms – Buyer

- What do you want?
  - Real estate Lease
    - Fair market value rent
      - » Open to interpretation
    - Increases – locked in? CPI?
    - Triple Net – major building repairs exclusions?
    - Option to buy?
    - Right of first refusal?
    - Ability to transfer lease
    - Other issues



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## Terms – Buyer

- What do you want?
  - Employment Agreement
    - How much do you want seller to work?
    - For how long?
    - Rate of pay?
    - Benefits?
    - Responsibilities?
    - Open ended?
    - Ability to get rid of him or her when you want?



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## Terms – Buyer

- What do you want?
  - Allocation of purchase price
    - Equipment versus goodwill
    - 179 and five year depreciation versus 15 year amortization
  - Leases paid off by seller
  - Help with transition – clients, other issues
  - Other



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## Terms – Buyer

- What will you take?
  - Asking price
  - Flexibility on lease
  - Flexibility on employment agreement
  - Other areas?



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## Terms – Buyer

- Deal-breakers
  - Items you just can't budge on
  - Must have owner financing to get deal to work
  - Allocation of purchase price



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## Terms – Start Up

- What do you want?
  - Lease
    - Square footage
    - Rental rate
    - Triple net? Exclusions?
    - Concessions for signing lease
      - » Free rent
      - » Money towards leasehold improvements
    - Parking spots

## Terms – Start Up

- What do you want?
  - Lease
    - Option to buy
    - Option to rent additional space
    - Rent Increases
    - Signage
    - No similar business in building/mall
    - Amount of rent deposit/security deposit

## Terms – Start Up

- What do you want?
  - Construction
    - Remember: moderation
    - Accurate budget
    - Minimal price overages/minimal adjustments
    - Negotiate contractor profit
    - Timing!
    - Insurance
    - Check references
    - Permits/Connections

## Terms – Start Up

- What do you want?
  - Financing
    - Interest only during construction
    - Ease of disbursements
    - Overages
    - Traditional loan once finished
    - Anything to help cash flow
    - Rate
    - Length
    - Costs

## Terms – Start Up

- What will you take?
  - Depends on cash flows
  - Moderate flexibility on lease
  - Moderate flexibility on interest rate?

## Terms – Start Up

- Deal-breakers
  - Items you just can't budge on
  - Contractor – need guarantee on timing
  - Landlord – need free rent during construction period

## Financing

## Financing

- Where?
  - Veterinary lenders
    - Familiar with terrain
    - Usually can beat local banks
  - Local banks
    - May have relationship with them
    - All in one banking relationship may be a plus
  - Friends and Family
    - Favorable terms
    - Strings attached/changes relationship?
  - Equity Partner
    - Comes with different set of risks

## Financing

- What to look for
  - Amount financed
    - What percentage will lender finance of deal?
    - Is it enough?
    - Start Up restrictions?
  - Down payment required
  - Partial owner financing required?
  - Interest rate
    - Fixed
    - Variable
  - Length of term
    - 7 /10/15 years

## Financing - Buyer

- What to look for
  - Out of pocket costs involved
  - Pre-payment penalties
    - How long before you can pay off or refinance?
  - Paperwork
  - Timing
  - Security required
  - On-going requirements

## The Team

## The Team - Buyer

- Financial Consultant a must
  - Value of practice
  - Financial Terms
  - Tax ramifications
  - Negotiations?
  - Feasibility Analysis
- Lawyer
  - Reviewing of documents on your behalf
  - Negotiations?
  - Need lawyer for protection – all facets

## The Team - Buyer

- Lender
  - Assist with financing
  - Working Capital
  - Credit line



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## The Team – Start Up

- Financial Consultant a must
  - Projections – does this work?
  - Financial Terms
  - Tax ramifications
  - Negotiations?
- Lawyer
  - Reviewing of documents on your behalf
  - Lease
  - Negotiations?
  - Need lawyer for protection – all facets



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## The Team – Start Up

- Lender
  - Assist with financing
  - Working Capital
  - Credit line
- Contractor
  - New location
  - Help with costs/design
- Marketing
  - Need strong person
  - Practice needs to hit ground running



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## Tax Issues



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## Tax Issues

- Whether buying, selling, or starting from scratch, every decision can have major consequences
- Current tax law potentially in a state of flux
- Review what is potentially coming down pike



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## Small Business Expensing and Depreciation

- a. Current Law allows small businesses to “expense” up to \$250,000 in new equipment instead of depreciating over five or seven years.
- b. Can do even if equipment is financed. Potentially a big write-off for practice while spending very little money up front.



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## Tax Issues – Buyer

- Drugs and Supplies – Ordinary Expense
- Accounts Receivable – Non-taxable as you collect
- Equipment/Furnishings/Fixtures – 179 Expense, or depreciate over 5 or 7 years
- Covenant not to Compete – Amortize over 15 years
- Goodwill – Amortize over 15 years
- Patient Records – Amortize over 15 years

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## Tax Issues – Start Up

- Drugs and Supplies – Ordinary Expense
- Equipment/Furnishings/Fixtures – 179 Expense, or depreciate over 5 or 7 years
- Leasehold Improvements – 39 years
- Move as much as you can into shorter life assets
- More write-offs than you'll know what to do with in first two years.
- Consider conserving and pushing off into future when income is higher

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## Do the Numbers Work?

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## Feasibility Analysis

- Buyer should expect their earnings from the practice (salary and profits) to cover:
  - Repayment of debt incurred to purchase practice
  - Increased income taxes related to practice purchase
  - “Decent” living

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## Feasibility Analysis

- Should be a part of the valuation process
- If so, buyer's advisor should review for reasonableness and applicability to buyer's situation
- If not, buyer's advisor should prepare—this is the single most useful analysis the buyer's advisor can do
- Advantages of this method
  - Uses sellers #'s
  - Avoids complexities of valuation methodology

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## Start Up Projections

- Part of Business Plan
- Banks will require
- Help Plan for Future:
  - Where is the practice headed financially?
  - Planning for revenue
  - Analyzing expenses
  - Monitoring cash flows
  - Working Capital needs
  - **Is your plan doable???**

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## Start Up Projections

- Should be similar to Profit and Loss
- Revenue
- Expenses – Major categories
  - Staff Costs
  - Professional Services
  - Occupancy
  - Administrative
  - Debt/Loans
  - Capital Expenditures
  - Owner Distributions
  - Cumulative Cash Flow

## Transition

- Everything involved with the change of ownership/starting business
- Often the area that can sneak up on new owners
- Not difficult, just detailed and painstaking
- An order in which you do things
- Example, can't open checking account until incorporated and have Employer Identification Number

## Which is the Right Path for You?

- Considerations:
  - Time Commitment
  - Personality
  - Financial Needs
  - Risk Tolerance
  - Location
  - What type of practice are you looking for?
  - Support system

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## Questions?

