

Excerpt from

What It's Worth:

Veterinary Practice Value

What It's Worth: Veterinary Practice Value

A BVR SPECIAL REPORT



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What It's Worth

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Introduction

The American Veterinary Medical Association reports more than 53,000 veterinarians currently practice in over 26,000 companion-animal hospitals in the U.S. With many practice owners retiring or selling and some disputing a business issue in court, both business valuation professionals and practice owners need to stay up-to-date on the value drivers and valuation techniques employed to derive a value for these businesses.

Veterinary practices are unique from other types of businesses and can be challenging to value. For example, an animal clinic may be located in an affluent community and have plenty of clients, but these characteristics alone do not provide insights on the enterprise's profitability. Many practices have ancillary profit centers, which can have different profit margins from the professional veterinary services. In addition, advances in medical techniques are driving veterinarians to acquire additional equipment, and these investments bring unique issues, including composite equipment leases.

The chapters in this special report, *What It's Worth: Veterinary Practice Value*, bring business valuers and practice owners up-to-date on the current trends, pressing issues, and key drivers of practice value. In addition, this report includes expert guidance on professional practice issues such as goodwill, covenants not to compete, and common valuation errors. Rounding out the report, we provide valuation multiples from the *Pratt's Stats* database, rules of thumb, court case digests, and sources of industry information.

Jan Davis
Senior Contributor
Business Valuation Resources

SECTION I:
VALUE DRIVERS AND VALUATION OF
VETERINARY PRACTICES

1. Six Profit Indicators for Veterinary Practices

The various attributes of a veterinary clinic, such as location, the affluence of clientele, and the quality of medicine practiced, may all be outstanding and provide support for value considerations in these types of businesses. However, such characteristics do not provide insights into the profitability of the practice. In this chapter, Byron Farquer, veterinarian and appraiser, and David McCormick, appraiser, discuss six profit indicators and benchmarks in veterinary practices.¹

1. *Annual revenues.* Most practices generate around \$300,000 to \$600,000 of revenue per full-time equivalent veterinarian. The wide range exists because of geographical differences, species differences, and work rates. A small-animal-practice veterinarian in rural New Mexico, for example, may not be able to break the \$450,000-to-\$500,000 gross per doctor because the average transaction fee is lower than in the larger urban areas. Another small-animal veterinarian in northern New Jersey may produce over \$1 million through team utilization and higher levels of medicine.

Veterinary care of large animals (livestock) often involves economic factors, whereas client spending on pets is mostly affected by discretionary income. Livestock veterinarians can be constrained by the cost of treatment versus the economic value of the animal, something most small-animal (i.e., pet) owners do not consider. In many cases, veterinarians who deal with livestock have clients who are unable to accept all of the doctor's diagnostic and treatment recommendations, which limits the potential revenue that could be generated by that case.

2. *Discretionary cash flow.*² The owner's discretionary cash flow can range from 24% to 41% of gross revenues (or more). The cash flow can vary by practice type. Mixed-animal practices (those that

1 Based on Valuing Veterinary Practices, a BVR webinar, May 8, 2014.

2 Discretionary cash flow is defined as everything that has been paid that is necessary to the operation of the practice, but it does not include anything that an owner is electively writing off or hiring extra people for. It includes the money pool that the owner veterinarians would compensate themselves for clinical and management duties.

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