NATIONAL VETERINARY LAW GROUP AT
MANDELBAUM BARRETT PC

Unleash Your Potential:

Selling Your Practice - Current Market Trends & Strategies

Peter H. Tanella

Peter is the Chair of the firm's National Veterinary Practice Group and a member of the firm's Board of Directors. He leads a national practice, offering strategic legal guidance throughout the business life cycle, with a focus on acquisitions, sales, mergers, and daily corporate counseling.

Beyond his legal expertise, Peter has a longstanding commitment to public service and charitable causes. He proudly served his hometown of Cedar Grove for nineteen years on the Township Council, including five terms as Mayor. Peter remains active in both legal and veterinary communities. He serves on the Board of Directors for NYSAVE, a non-profit dedicated to providing emergency funding for veterinary care for sick or injured animals. He is also a member of VetPartners, and the American Veterinary Medical Legal Association.

ptanella@mblawfirm.com 973-243-7915

Our 360° Approach & National Reach

The **National Veterinary Law Group at Mandelbaum Barrett PC** offers an expansive range of skills, knowledge, and experience to the veterinary industry in all 50 states, including:

- Practice Start-Ups
- Practice Purchasers & Sales
- Associate Buy-Ins
- Partnership Agreements
- Mergers & Joint Ventures
- Employment Contracts
- Exit Strategy Planning
- Real Estate
- Transactions
- Leasing
- Construction Law
- Estate Planning
- Privacy & Cybersecurity
- Regulatory Compliance

Who Do We Have in the Room?

- Anyone thinking of selling?
- Anyone already sell?
- Anyone thinking of selling to corporate?

Current Trends in the Market – 2024

Corporate Sales Market Trends:

- 70 corporate owned consolidators
- Backed by private equity or high-net-worth individuals
- Often pay higher purchase price than a traditional buyer
- Corporate sale multiples in 2023 ranged from 7x to 15x EBITDA
- Corporate sale multiples in mid-2024 range from 7x to 12x EBITDA

Current Trends in the Market – 2024

Corporate Sales Market Trends:

- Average corporate Targets: 3+ doctors grossing $1.5M+
- Typically require the seller to take a percentage of the sale price in rollover equity
- Expect long-term employment agreement with seller and associates
- Rise in corporate partnerships has increased corporate interest in 1 to 2 doctor practices grossing over $1m
- Practices with specialty services or emergency care have higher demand

Current Trends in the Market – 2024

One thing ALL corporate buyers have in common is that they are all different.

- Yes, selecting a corporate buyer is about purchase price
- But remember, ultimately you will have to work for 3 to 5 years
- So, **culture** should be one of the most important differentiating factors

Current Trends in the Market – 2024

Private Sales Market Trends:

- Private sale multiples in mid-2024 range from 4x to 7x EBITDA
- Based upon the financing available to private buyers
- Present interest rates between 4% and 6%

Types of Transactions – Private vs. Corporate

Private Sales

- Personal relationships play a significant role.
- Potential for a more flexible and collaborative negotiation process.
- Financing is more likely to be limited and may include either a bank loan, seller financing, or a combination of the two.
- Fewer post-sale restrictions and integration issues.

Corporate Sales

- Primarily focused on financial metrics and scalability.
- Often require more complex legal agreements and less flexibility in negotiations.
- More likely to offer earn-outs, deferred payments, and equity stakes.
- Impose strict post-sale restrictions, such as non-compete agreements and transition period requirements.

Build Your Team

- Accountant
- Attorney
- Financial Advisor
- Practice Consultant
- Lender

A Legal Checkup

What is your long-term plan?

- Consider your life stage, when do you intend to exit?
- What are you looking to accomplish in a sale? Work-life balance? Maximize profit? Transition legacy?
- Do you intend to retire, or are you willing to assume the role of an employee?

Employee Considerations

- Contracts and restrictive covenants
- Retention of key employees
- Misclassification of employees

Real Estate Considerations

- Own or lease; new lease v. assignment of lease
- Who is your landlord? Does your lease allow you to assign?

Preparing for a Sale

- **The best way to prepare for a sale is to conduct your own due diligence**
  - Examples of "Sell-Side Diligence"
    - Financial due diligence
    - Lien searches on your practice & Google yourself
    - Associate employment agreements & proper classification
    - Examining restrictive covenants
- **Your diligence tasks begin long before deciding to take practice to market**
- **Typical period is 5 to 7 years**

What to Consider Before Selling

If you are thinking about selling, ask yourself:

- Am I prepared for outsiders to examine my books and records?
- Am I comfortable with what they will find?
- Am I running personal expenses through the practice?
- Am I declaring all revenue, especially cash?
- Should I sell my real estate?
- Do I have a proper lease agreement with adequate renewal periods?
- Most corporate buyers do not buy real estate
- Need a fair market value (FMV) lease; rent payments will be deducted from EBITDA, and corporate buyers will do a rent appraisal

Understand Your Goals

- Determine desired culture and fit
- Determine length of employment post-close
- Any other conditional requirements?

Are You Ready to Sell?

Emotional Readiness

Selling a practice is more than a financial decision. Consider the impact on your staff, clients, and your legacy in the community.

First Step – Determine Valuation

When should I get a valuation?

- 7 years before you are ready to retire
- Seller must work for the new owner
- Problems with practice profitability

Take away, it is a good idea to perform a practice valuation separate of any corporate buyer.

First Step – Determine Valuation (continued)

- **How is your practice valued?**
  - Multiple of profit or EBITDA
  - Percentage of gross? Not really

- **3 years of financials**
  - 3 years of profit and loss statements
  - 3 years of tax returns
  - 3 years of production reports
  - 3 years of payroll reports
  - Property tax information

- **Calculating EBITDA (Profitability/Cash Flow)**
  - Correct for market rent (8% to 10% of the building value)
  - Correct for owner and doctor salaries (20% of production)

What is EBITDA?

Earnings
Before
Interest Taxes
Depreciation
Amortization

= Pure measurement of profitability

What is EBITDA?

Cash Received	-	Legitimate Business Expenses	=	Net Earnings
	+	Interest		
		Taxes		
		Depreciation		
		Amortization		
	=	EBITDA		
		"Pure" analysis of earnings		
	+	Add Backs		
	=	Adjusted EBITDA		

- Actual revenue – actual expenses = X, then add back expenses that don't affect profitability for the new buyer (interest, taxes, depreciation, amortization)
- Then **APPLY A MULTIPLE, WHICH WILL VARY** based on the **TYPE** and **QUALITY** of your practice
- Must include expense of 1) FMV compensation and 2) FMV rent

Choosing the Right Corporate Partner

Questions to Ask:

- “All cash” v “Joint Venture” v “Top-Co” Investment?
- How much do you want to sell?
- How long do you want to stay?
- Do they charge a management fee?
- Will your associates participate in the partnership?
- Lease or sell the real estate?
- Will my associates sign a new employment agreement?
- Are you backed by a private equity firm?
- Can you show me your internal spreadsheets & assumptions on how you arrived at my EBITDA calculation?
- What is your plan to achieve your next liquidity event?
- How involved will you be in the management of the practice?
- What percentage of your doctors achieve their earnout or receive their holdbacks?

All these questions should be discussed with your practice broker to determine the right choices for you!

Choosing the Right Corporate Partner

Corporate Partnership

- Sell a majority portion of your practice up front (51% to 80%)
- Profit share if a "joint venture"
- Larger payout on the final sale?

Why do consolidators like corporate partnerships?

- Decreased risk

Choosing the Right Corporate Partner

Advantages:

- Corporate sales offer financial security
- Gain financial and operational support while retaining some ownership and influence over the practice
- Less responsibility, may take over day-to-day operations
- May allow seller to step back
- Recruiting

Challenges:

- Loss of autonomy
- “Bad partners” - Shift in clinic culture as corporate policies are implemented
- Extended transition time: 3 to 7 years
- Seller may not be able to step back

Choosing the Right Corporate Partner

Two types of Corporate Partnerships

“Joint Venture”

“Top-Co Investment”

Choosing the Right Corporate Partner

Joint venture:

- Sell a portion of the practice up front (51% to 80%)
- Become a partner in your animal hospital
- Seller benefits from profit sharing
- Increases profitability
- Better success at recruiting, assists with growing the practice
- Management fees 2% to 5% of gross
- Associates may participate in ownership

Choosing the Right Corporate Partner

Joint venture: How do you exit?

- Predetermined time?
  - Typically, 3 to 5 years post sale
- Recapitalization event?

Recapitalization:

- Corporate restructuring with a new investor; approximately every 5 to 7 years

How much do you exit for?

- Growth & increased profitability = higher EBITDA
- Predetermined price or multiple?
- Recapitalization event?
- "Put Option" – option to exit at a lower multiple/price
- "Call Option" – option for the corporate to buy you out

Choosing the Right Corporate Partner

“Top-Co” Partnership

- Own stock in the parent company
- Stock only available to “partners”, original investors and employees of the company
- Own a piece of “all the hospitals”
- Less risk but less control
- No profit sharing

Selling to Associate Veterinarians

Advantages:

- Desire long-term ownership and are focused on client retention and staff well-being
- Personal connection and continuity of care for clients
- Potential for a more flexible and collaborative negotiation process
- Typically, fewer post-sale restrictions and integration issues
- If a partnership,
  - Ownership mentality, “share the wealth”, employee retention, transition plan

Challenges:

- Financing can be more complicated or limited for individual buyers
- Smaller pool of qualified buyers

There will always be a place for independent practices!

Selling to Associate Veterinarians

Partnership with associate veterinarians:

- Sell a minority portion of the practice up front (20% to 40%)
- Easily financed through veterinary lenders
- Seller and buyer both profit share
- Final sale price and time?
- Future sale to corporation or another partner?

Selling to Associate Veterinarians

Partnership with associate veterinarians - Example of associate buy-out:

- Practice with $200,000 profit (EBITDA)
- 5x EBITDA or $1,000,000 valuation
- Sell 20% at $200,000
- Owner profit share for 3 years (80% of $200,000 = $160,000 per year)
- Sell remaining 80% for $960,000 (20% growth)
- Total value = $1,640,000

Selling to Associate Veterinarians

Partnership with associate veterinarians - Example of corporate buy-out:

- Practice with $200,000 profit (EBITDA)
- 5x EBITDA or $1,000,000 valuation
- Sell 20% at $200,000
- Owner profit share for 3 years (80% of $200,000 = $160,000 per year)
- Sell remaining 80% for $1,920,000
  - 20% growth = $240,000 profit
  - 10x sale = $240,000 x 80% = $1,920,000
- Total value = $2,600,000
  - $200,000 + $480,000 + $1,920,000

Understanding the Transactional Process

Five Phases of the Deal

Phase 1: Indication of Interest
Phase 2: Offer/Letter of Intent (LOI)
Phase 3: Due diligence
Phase 4: Contract Negotiation
Phase 5: Closing

Understanding the Transactional Process

Phase 1: Indication of Interest

- Requires information sharing via a non-disclosure agreement (NDA)
- Everyone receives the same information
- Results in an indication of interest

Understanding the Transactional Process

Phase 2: Letter of Intent

- Outlines preliminary agreement of the parties
- NOT a legally binding contract *except,* exclusivity & confidentiality
- Describes the essential terms of the deal

Understanding the Transactional Process

Phase 3: Due diligence

- Quality of Earnings Assessment (Q of E) - after LOI
- Deep dive diligence, including legal and regulatory
- Avoid “re-trade”

Understanding the Transactional Process

Phase 4: Contract Negotiation

- Asset purchase vs. stock purchase agreement
- "Partnership" for rollover equity
- Management services agreement
- Post-closing employment agreement(s)
- Lease or lease assignment

Understanding the Transactional Process

Phase 5: Closing

- Execution of transaction documents
- Flow of funds

What Can Go Wrong?

- Failing to plan
- Rushing into negotiations
- Not enough diligence
- Forgetting about the transition
- Assembling the wrong team
- Delay of game
- "Deal fatigue" – Keep your mindset right

Making the Right Decision

- **Align with your goals:** Consider your financial, personal and operational goals. Ensure the sale terms reflect your long-term objectives.
- **Impact on staff and clients:** Evaluate how the sale will affect your team and your clients. Will the buyer maintain the practice's reputation and culture?
- **Professional advice:** Work closely with your legal, tax, and financial advisors to structure a deal that protects your interests and maximizes your financial return.
- **Final thoughts:** The veterinary market is evolving. Corporate buyers offer new opportunities, but it's essential to weigh the pros and cons carefully.

Any Questions?

Let's Continue the Conversation

Peter H. Tanella, ESQ.

973-243-7915 | ptanella@mblawfirm.com

www.mblawfirm.com

Thank You.

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