



Keiter Advisors Insights:
**Veterinarian Practice M&A
in the Post COVID-19 Era**





Keiter Advisors Insights: Veterinarian Practice M&A after COVID-19

Executive Summary

Interest in the veterinary sector has remained robust as the U.S. emerges from the pandemic. Current market conditions have some veterinarian practice owners considering their exit alternatives. The reasons we hear most often include:

- Potential changes in tax policy
- Mental stress
- Competition to recruit new veterinarians & technicians
- Current valuation levels at or near record highs (and their sustainability); and
- The pressures of competing with the consolidators.

Private equity, attracted to the fragmented nature and recession resilience of the industry, have been steadily investing in larger “platform companies” over the last several years and are hungry to consummate acquisitions. Additionally, industry revenues withstood the COVID-19 pandemic and are continuing to expand. We believe industry acquisition activity will remain robust for the foreseeable future as interested sellers seek a large pool of acquisition hungry buyers. It’s important for sellers to understand the components of what is driving value in this environment.

Positive Industry Performance

According to VetSuccess, performance since the beginning of the COVID-19 pandemic has been remarkably positive. After an initial dip during the onset of the pandemic, revenues have steadily increased, comparing favorably to prior year. Here is an analysis of performance over the last 12 months:



Figure 1: Source: VetSuccess



Buyer Universe & Transaction Types

Keiter Advisors is tracking nearly 40 private equity backed and strategic veterinarian practice acquirors. These acquirors have each have a different acquisition and operational philosophy; it is important for a seller to conduct “reverse diligence” on a buyer to make sure they are viable, able to make acquisitions and can close in a timely manner.

Each of these acquirors has a distinct strategy. The following types of transactions are the most common:

- Owner sells the practice and receives a majority of cash at closing but takes some of the purchase price and “rolls it over” into the stock of the buyer
- Owner sells the practice and receives all cash at closing
- Owner enters into a joint venture arrangement with a partner to build out additional practice locations, reducing the amount of capital a practice owner needs to invest to grow.

Key Considerations in Determining Value in a Practice Today – Beyond EBITDA

Buyers certainly have their own sensitivities when determining value. Most sellers are very familiar with the concept of EBITDA, or earnings before interest, taxes, depreciation and amortization. In addition to this metric, we also see the following items consistently referred to by most of the acquirors we have worked with:

- **Performance During COVID-19 Pandemic.** A careful review of monthly (or weekly) performance during COVID-19 is common for buyers to evaluate. The stronger the performance, the more confident a buyer is regarding value.
- **Number, Quality and Commitment of Practitioners.** Most acquirors will also focus on practices with at least 2 veterinarians. Generally, the larger the number of providers, the more value. Also, a DVMs tenure, experience, production and compensation will be considered. Is all of the production concentrated in one or two DVMs? How are DVMs compensated? Are they under any type of contract? What are the terms, such as non-compete and non-solicit? All of these are important factors when analyzing the ability to get associate veterinarians to “sign on” with the buyer.
- **Gross Profit Margin Levels.** Gross profit margin tells a buyer a lot about a practice. The level of fee schedules (too high/too low/just right), the mix of business (services/meds/inventory) and their opportunities post-closing to improve profitability and revenue.
- **Control of Practice Locations & Ability to Expand.** A common refrain we hear from buyers is the length of time that a practice owner controls their current location. Most acquirors prefer not to purchase real estate, opting instead to lease. Generally, buyers like to have at least 10 years worth of “control” at a location. For leased locations, this doesn’t mean a term of 10 years, but also would include any options. Also, if it’s a good location with ability to control the site through options, is there an ability to expand? More control, flexibility and ability to expand good locations generally results in a better story and potentially a better value.
- **Health Benefits.** A buyer may have “negative synergy” meaning to replicate the same level of benefits a practice receives would cost more. Thinking about an acceptable level of benefits going forward and how this might impact retention of employees is important to evaluate prior to going to market. Positioning this from a financial and qualitative perspective are important things to think through.



- **Lab Services Agreements.** Always a hot button, a buyer will want to understand agreements with lab service providers – the length of the commitment, are there any ancillary equipment leases attached, the assignment and consent provisions and other important contract details.
- **The level of adjustments / normalization items to EBITDA.** It certainly is common to have some adjustments or addbacks to EBITDA. These can include items such as above market compensation for the owner(s), personal expenses and one-time/extraordinary items are all fair game for negotiation. Making this list unreasonably long can dissuade a professional buyer and result in a lower valuation or no transaction at all.

Latest Keiter Advisors Transaction

We are pleased to have had the ability to assist Mechanicsville Animal Hospital in its sale to NVA, Inc. The transaction closed at the end of August 2020.



If we can be helpful to you, please call us – we are happy to have a confidential conversation with you regarding the acquisition market and your situation. We would be delighted to help.

Matt Austin
Managing Director
(804) 307-5661
maustin@keiteradvisors.com

Carroll Hurst, CPA
Director
(804) 273-6204
churst@keiteradvisors.com

Scott Zickefoose, CPA
Partner
(804) 273-6253
szickefoose@keitercpa.com

Alec Kendall, CPA
Associate
(804) 433-4185
akendall@keiteradvisors.com



As a practice owner and veterinarian for 27 years, I went into this process very unsure and very nervous. Choosing to have Keiter Advisors represent us in this transaction has been one of the best decisions I have ever made.

In years past, I had previously tried to entertain corporate groups myself, but I quickly realized it was overwhelming and much too time consuming. The Keiter team took an enormous amount of pressure off us, as they handled all the complex negotiations. They helped us receive the greatest value for our business and ensured the purchasing company was aware of our full worth.

The amount of time and effort they put into this was beyond what I had foreseen when we started this process. Keiter's care and concern was evident in every step of the process, and their attention to details was amazing. They found the best company to purchase our practice out of the many we considered, and the one that would take care of our staff and be the right fit to continue the legacy and culture we have worked so hard to create.

They actually made the process enjoyable for us, and they worked so closely with us that we felt like they became part of our business family. We cannot say enough great things about Keiter Advisors and would highly recommend them to anyone considering a merger and acquisition.

- Dr. Jeff Kilgore and Mrs. Becky Kilgore, NP