



## SHOULD YOU BUY THE REAL ESTATE?

*written by Dr Tony Thelander - Director ValuVet*

When faced with purchasing a veterinary practice, the question often arises, "Should I buy the real estate too"?

**IN FINANCIAL TERMS** – in most cases YES! Consider the financial implications: It largely depends on the return on investment required by the landlord. If the landlord requires an 8-10% return on his or her real estate investment (depends on location) then borrowing at 7-8% (currently) to purchase the property makes good economic sense.

If the return to the landlord is less than an 8% return then you need to consider other factors such as the potential for capital growth, state and suitability of the building and perhaps the ability to redevelop the site in order to make the purchase decision.

### IN THIS ISSUE

- Should you buy the real estate?
- Break even point
- Preparing for retirement
- Continuing professional development
- Matters to consider when selling a share in your practice

**IN STRATEGIC TERMS** – not always! Consider this scenario: Where you purchase a practice in a remote area where you may wish to work for a set period and then move on, owning the real estate can often be a bit of a noose when you wish to sell and the new owner cannot or does not want to buy. You may be left with a purpose built facility in a remote area which only a vet can use – this can be a very restricted market.

In percentage of turnover terms (this can often be the decider) most profitable practices pay between 3-6% of turnover in building costs (more in inner city areas where real estate is at a premium) so if you are paying more than this percentage in rent and the other factors (above) stack up then purchasing the real estate would be a good decision.



## EDITOR'S COMMENTS

Dr Tony Thelander  
Director ValuVet

*Dear Colleagues*

*As this newsletter goes to press, we find ourselves in very uncertain times economically – one wonders what might be ahead for our profession and our practices? My advice in troubled times is to try to hold on to your team at all costs because when the good times return, they will be there to take care of your clients and patients. The other 'must' is to give your clients superlative service so they too will be there for the long haul.*

### Seminar

*The big news since our last newsletter was our first Succession Seminar which we ran for Brisbane vets and their partners in August. Our four speakers, combined with some excellent catering by the Tattersalls Club, guided our 35 delegates through the various stages of successful succession planning. Heartened by the response, ValuVet will be running the next seminar in Melbourne in November (see details later in this newsletter).*

### Our Work

*Since making the transition to full time consultancy in July, I have come to appreciate the scope of tasks that we are called upon to do. While practice valuation remains our core business, practice assessments are probably the most gratifying part of our work. We can watch our clients grow their bottom line and hence the value of their practice through time. More and more we are asked for consulting advice to facilitate the sale of partnerships or practices for young buyers purchasing a practice for the first time. Just as we do in clinical practice, it is great to make a difference in peoples' lives.*

### Hugh Hamilton

*One of the privileges in our consulting work is that we get to see some great practices and go to some great locations. Just recently I visited the Fleurieu Peninsula south of Adelaide – what a great part of Australia that is with everything so close together. One of the highlights was a visit to Hugh Hamilton's vineyard in McLaren Vale (this is not a paid advertisement!) where I could have easily purchased every wine on his tasting list.*

### Team news

*Our International consultant, Hugh White, in between consulting jobs for ValuVet, has been in America and Europe for the PGF (ValuVet will be there one day) to widen the horizons for CE in our profession. Our Chartered Accountant, David Sharp and his 3 team mates completed the 100km Oxfam walk in Sydney last month and raised \$35,000 for charity in the process – well done!*

## BREAK EVEN POINT

*written by Dr Tony Thelander - Director ValuVet*

Have you ever wondered what the BE point of your business is? If not, why not? If we know this, we can then estimate how much per year, month, week, day, hour we need to generate just to cover the running costs of the business.

### TRY THIS CALCULATION

Say your practice has the following figures:

Total revenue	= \$1M
Variable expenses (drugs, pathol, animal expenses)	= \$300K
Gross profit (Revenue – variable expenses)	= \$700K
Gross profit % of total revenue (GP%)	= 70%
Fixed expenses (wages, rent, everything else)	= \$400K
Break Even Point (Fixed exp / GP%)	= \$400K/.70
per annum	= \$571K
per week	= \$11K
If clinic open for 60 hours/week	= \$183/hour
If 2 full time vets	= \$91.50/vet/hr

Now we can make sound management decisions based on the cost of running a business

How will putting on a new staff member or leasing a new ultrasound machine affect this equation? Once you know your BE point you can then estimate the additional income required to cover your costs. ■



**We have a new phone number.  
Please update your contact details....**

**Phone: 07 3831 5555**





# FEATURE PRACTICE



## Veterinary Specialist Services

Every now and then we come across excellence in our industry, and VSS at Underwood in Qld is such a place. Partners Bruce Mackay, Terry King, Kim Smith and Phil Moses have created a state of the art specialist referral centre with services to match. Congratulations gentlemen on a first rate facility.



*Reception*



*Administration*



*Drive in autoclave*



*State of the art MRI*



*Radiology suite*



*Preparation area*



*One of 3 operating theatres*



*Scrub area*



Instrument cabinet



Recovery cages



Dog wards



Mega Laundry



Library and seminar room

## VETS' PRACTICE MARKET PLACE

### BUYERS

These buyers have all signed confidentiality agreements and are genuine buyers in their preferred areas and may be reached by contacting ValuVet on 07 3831 5555

#### VICTORIA

- Buyer 1: 2-4 vet SA practice in Melbourne Metro area
- Buyer 4: SA practice in Melbourne Metro area
- Buyer 9: 2-4 vet SA practice Capital Cities & major Regional

#### NEW SOUTH WALES

- Buyer 3: SA or Mixed practice in NSW South Coast
- Buyer 5: 2-3 vet SA practice in Sydney Metro area
- Buyer 6: 2-3 vet SA practice in NSW or Qld
- Buyer 7: 3-4 vet SA practice Sydney & Central Coast
- Buyer 8: 2-4 vet SA practice Central Coast NSW
- Buyer 14: 2 vet SA practice Sydney Metro

#### QUEENSLAND

- Buyer 2: SA practice in SE Qld or NSW Northern Rivers
- Buyer 10: 2 vet SA practice Sunshine Coast Qld
- Buyer 11: 2-3 vet SA Practice Gold Coast Qld

#### SOUTH AUSTRALIA

- Buyer 12: 2-3 vet Mixed practice Fleurieu Peninsula SA
- Buyer 13: 1-2 vet SA practice in Adelaide SA

### SELLERS

These practices are for sale and information is available from ValuVet by calling 07 3831 5555

- ✚ ValuVet report available
- ★ Excellent facilities
- ▲ Purpose built facility

#### VICTORIA

- Mildura – 1 vet SA practice (equine practice optional)
- SE Melbourne – 1.5 vet SA practice ✚

#### NEW SOUTH WALES

- Central Coast – 1.5 vet SA practice ✚
- Central Coast – 2.5 vet SA practice ★
- Wellington – 2 vet Mixed practice ▲

#### QUEENSLAND

- Emerald – 2 vet Mixed practice ▲

#### SOUTH AUSTRALIA

- Barossa Valley – 1.5 vet SA practice ✚

#### NORTHERN TERRITORY

- Gove – 1 vet SA practice ✚

#### WESTERN AUSTRALIA

- Manjimup – 3 vet Mixed practice ▲ hospital plus branch





# PREPARING FOR RETIREMENT

*An Introduction to a series of articles  
on retirement by Dr Jim Martin BVSc*

How long have you been  
thinking about retirement and  
done nothing about it?

Procrastination will not help. If  
you are forced to do things quickly,  
you tend to get the least desirable  
results. Ideally, one hopes to retire  
in good health; reduced working  
hours in the latter years will increase  
the likelihood of this occurring.  
Frequently unpredictable events do  
force retirement where a high work-  
load is a contributing factor.

Practice owners need to prepare at  
least 5 years and preferably 10 years  
in advance of retirement to maximise  
the value of their practice and ensure  
they have a retirement income. This  
is where ValuVet advice can help you  
- it has been the topic of many of  
my earlier articles, but today, I hope  
you will think about how you plan to  
retire; and what to do when you  
have retired.

You need practical means  
to put your retirement  
dreams into action.

This is what I did...

Ten years ago I purchased a property  
in NZ, where now I spend half my  
time. I write from Queenstown,  
today. I have revived an earlier  
interest in golf which I have not  
played regularly for 43 years - I  
haven't got down to my original  
handicap, but who cares, I am  
enjoying it. I am planning to walk  
some of the trails in NZ to keep old  
joints working, and improve fitness.

I have more time for reading and  
take a greater interest in church  
and community affairs. For me,  
work was fun, but I find retirement  
or semi-retirement enjoyable, too. I  
was fortunate in that I did reduce  
my work-load in my latter years and  
became more involved in retirement  
activities.

Sadly, I see many practitioners who  
have few interests apart from their  
work. I was like that once, and I  
regret it. It is a recipe for forced  
retirement and an early demise.

So stop procrastinating...



Do something now, while you  
have time.

- Plan where to live
- What activities you can be involved in
- What interests to develop
- Start cutting back on your work time

I will comment more on practical  
means to do this in future articles.

Think about it...

## MELBOURNE – SUCCESSION SEMINAR

**LIFE AFTER PRACTICE!  
APPROACHING 40?  
YOU SHOULD ATTEND!**

**RACV Club, 501 Bourke St,  
MELBOURNE on Thursday 13th  
November 2008 from 7-10pm**

ValuVet in conjunction with the MMPB, will hold our next Succession seminar in Melbourne. Speakers will be from ValuVet, Financial planners and our Accounting firm with topics covering...

- Two personal journeys to Succession and Succession planning for veterinarians
- Prudent investment strategies for retirement
- Structuring your financial affairs to maximise the value of your veterinary practice

For more information contact:

**Dr Tony Thelander on 0409 478 762 or Dr Richard Gowan on 03 9533 8955**

# CONTINUING PROFESSIONAL DEVELOPMENT



*Dr Hugh White MVSc MACVSc*

When we visit practices for valuation purposes, part of our routine assessment is to ask how much training is conducted for both the veterinarians and the nursing staff. Of course, the answer varies enormously, from practices which encourage and support all team members, to practices where very little Continuing Professional Development (CPD) is done.

Apart from the registration requirement that vets maintain their continuing veterinary education, there is a huge benefit which can be derived from lifelong learning, even though it may leave practices a little short staffed from time to time. Both vets and nurses who have attended good quality workshops or courses come back to the practice with renewed vigour and stimulation derived from meeting with colleagues. Sadly this tends to be less frequent in many practices, as CPD can be gained from reading and other less interactive forums. The other challenge is for practices to benefit widely from the new information and techniques which may arise from attending courses. Many practices insist that participants give a short presentation to their colleagues within a short period after the course, so that some of the information and enthusiasm spreads throughout the rest of the team.

Many practices report that while they offer study leave, many of their employees fail to take advantage of the offer. Sometimes this is related to the higher level of part-time employment in the profession and the demands of busy personal lives. However many employees complain that they receive little assistance for travel and accommodation when the CPD involves a distant location.



There are practices which support CPD vigorously, providing both paid study leave and also financial assistance. This covers the hidden costs of attending something away from home such as travel, accommodation and child care support. These practices tend to be the more productive businesses with good morale and high productivity. Many vets and nurses miss the challenge provided by regular structured learning, and many new

graduates miss their study routine. On-line courses provide an excellent resource for CPD and have less impact on practice rosters, while often providing staff with special skills which in turn add value to the practice.

We know of many instances where CPD has been of direct financial benefit to practices. Ultrasound workshops provide practical advice and experience which can be turned into dollars. Vets who have attended these are much more confident in their approach to diagnostic ultrasound and will recommend more procedures and charge accordingly. Surgical workshops and courses frequently introduce new techniques, which when applied in the practice pay for the costs of the education many times over. Intensive care courses for nurses mean higher patient survival rates and more highly qualified nurses who can be used more effectively and charged out accordingly. Ruminant nutrition courses have enabled many practices to offer a much broader range of consultancy services which directly impact on the practice bottom line.

In summary, practices which make a financial commitment to CPD tend to have more enthusiastic and motivated staff who are likely to stay longer with the practice and generate higher returns, which in turn provides a return on the education dollar invested. ■



# MATTERS TO CONSIDER WHEN SELLING A SHARE IN YOUR PRACTICE



*David Sharp B Econ, ACA  
Director DFK Richard Hill*

## **SELLING A SHARE IN A PRACTICE IS DIFFERENT TO SELLING THE PRACTICE OUTRIGHT.**

The sale price of a share may be higher or lower than the open market price depending upon a number of factors. Factors which may change the price of a share include:

- You are not selling to a punter off the street; the purchaser is someone with whom you will have to trust your reputation and the value of the practice.
- You are to some extent buying their skills and commitment to help you enhance the value of the practice just as much as you are giving them an opportunity. You may adjust the price in recognition of this.

## **WORK OUT WHY YOU ARE SELLING A SHARE?**

The benefits may be that you are able to share responsibility, reduce your hours and reduce stress. There is a value to achieving these outcomes and if the price is reduced slightly to make them happen is that a bad thing? Do not assume however, you will be able to now take long service leave each year. The new partner will likely expect you to continue to work at least as hard as they do.

If the sale forms part of a succession plan then the first share may be sold at a lower price. If synergies

occur and profits increase then the sale of the remaining share(s) may be at substantially higher amounts reflecting increased profits. There will be reduced risk, as the purchaser will have inside knowledge, or the fact that the junior partner is continuing in the practice may entice a second purchaser to join. The greater the transferability of goodwill and proprietary knowledge, the greater the price can be.

The price is generally based on a multiple of profits. The higher the price the greater is the pressure on the seller to justify that price.

Top prices reflect top profits so you had better be sure that the practice, and specifically you, can perform and deliver these; otherwise you may have a very unhappy partner who may believe he or she was “ripped off” when the expected profits do not materialize.

The prospect of your continuing on in the practice may not be seen as big a plus as you may believe it to be. Further, the potential purchaser already working in the practice may in fact believe that they already hold or are responsible for building a significant amount of the goodwill



and may believe they should have a discounted purchase price for this reason.

## **GET A CURRENT VALUATION.**

Rules of thumb, valuation formulas in old partnership agreements and ‘what you think it is worth’ are indicative at best.

The purchaser should want to know what the practice is worth on the ‘open market’.

They are buying an investment, not helping you in your retirement plans, so the more transparent and business like the process, the better the future relationship will likely be.

When you sell a share of your practice, you are accepting someone will now share the decision making process. It does not matter if you still hold a controlling share, running roughshod over a fellow owner no matter how small a share they have, may create a significant problem in the future. Furthermore, the Corporations Law regulates and provides significant protection against adverse treatment of minority shareholders.

Allow the purchaser complete access to all the practices financial and other records.

Adequate access to ‘Due Diligence’ should minimize any after sale shocks or disappointments.

In conclusion, the process of getting the purchase price right is all important as more likely than not, it will define your relationship as owners and have a direct impact upon the value in the future. ■



# THINKING OF BUYING OR SELLING?

## VETS' PRACTICE MARKET PLACE LISTINGS WANTED!

Wishing to purchase a practice? Wishing to sell a partnership or a practice?

ValuVet may be able to help with contacts, marketing, feasibility analysis or valuations. Confidentiality guaranteed!

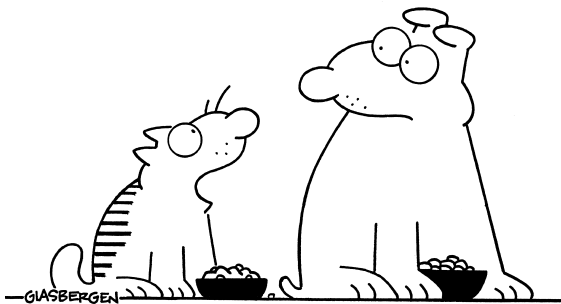
Contact us for more information on...

Phone: **0409 478 762** Email: [mail@valuvet.com.au](mailto:mail@valuvet.com.au)

or search current listings online at [www.valuvet.com.au](http://www.valuvet.com.au)



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**"The vet says I need a hobby. I thought eating and sleeping were my hobbies!"**

## WEBSITE NEWSLETTER

ValuVet would like to help the environment and offer our newsletter electronically. If you would like to receive an electronic copy of this newsletter, we would be grateful if you would 'Contact Us' through the website at... [www.valuvet.com.au](http://www.valuvet.com.au) and send us your current e-mail address – thank you!



- Practice and Equipment Valuations
- Practice Assessments
- Partnerships
- Career Advice
- Benchmarking
- Practice Marketing and Strategies

## CONTACT US

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## VISITING SCHEDULE

In order to defray travel costs, our visiting schedule will allow clients to co-ordinate with our movements.

DEC	NSW	JAN	SA & WA
OCT	QLD & NT	FEB	QLD & NT
NOV	VIC & TAS	MAR	VIC & TAS

**Regardless of the proposed schedule, our consultants are available at all other times as the situation demands**