

# Buying into a practice – Personal experience and advice for new grads

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## Abstract

Buying into a practice can be a scary proposition, but by doing 3 things you can set yourself up for success both professionally and financially. Upon graduating veterinary school, we have been consistently trained to use our left brain much more than our right. As we transition from mastering technical skills involved in routine bovine practice into more of a managerial or leadership role, we must grow and practice using our right brain. It is vital to first build a solid foundation as an associate based on work ethic, communication, and selflessness. Practicing leadership, reading to absorb new ideas and information, and learning from your colleagues and mentors is a great place to start.

After deciding that you are a good cultural fit and would like to purchase a practice, you must have an accurate valuation based on the true profitability of the business, complete a feasibility analysis, and create a buy-in/buy-out agreement that is fair for both sides of the transaction. The holy grail of practice ownership is that you are acquiring equity while having the business actually pay for your buy-in.

**Key words:** veterinary practice, leadership, buy-in, equity

## Using your Entire Brain

As scientists generally and veterinary students/new grads specifically, we have been trained to be analytical, rational, planned, and logical. All of these are left-brain skills which allow us to think through the scientific method quite well. We were hired to perform technical skills by using these left-brain thought processes. There are many parts of bovine medicine that require almost no thought after you have mastered the technical skill itself. These skills thus are the table stakes that are required to be an experienced bovine veterinarian. Progressing into an ownership role you must possess more soft skills such as compassion, emotional intelligence, judgment, empathy, and creativity. These are all right-brain skills and are normally less developed in our left-brain-dominant profession. To take that next step to become a practice owner who is a leader and possesses these right-brain skills, we must train our mind. The foundation on which you can build upon should be built as an associate. A few simple ways to strengthen your skills include finding your niche and creating a new revenue source for the practice; effectively leading staff and peers by showing dedication, hard work, respect, and selflessness; and training farm employees to perform a

task. In addition to deliberately practicing, you should read or listen to audiobooks as much as possible and across all different subjects. This will help broaden your mind and form linkages between subjects that you probably wouldn't have otherwise. Lastly, look to your colleagues and mentors for guidance. Instead of recreating the wheel, learn from them and ask questions to understand why and how they do certain things. Implementing these few things will set up the foundation allowing you to become a leader within your veterinary practice. Every day you should show leadership as a practice owner by empowering, inspiring, and motivating people so they can accomplish more than even they thought possible by giving them objectives and goals while also giving them the tools to achieve them.

## Does it Make Financial “Cents”?

Now that you have starting developing your right-brain skills and have decided that you would like to be an owner, it is time to dive into the financial health of the business, and this is done by first understanding what you are purchasing. It is important to note that no matter how much financial knowledge you might have, it is extremely important to obtain outside professional help to guide you through this process. Veterinary appraisers, accountants, and attorneys all play a role in making sure that the process is a fair and smooth transaction. When assessing the value of a practice, you must first know what you are buying. Profit from business operations is the key financial metric to be considered when deciding on a valuation of a veterinary practice. A feasibility analysis will help determine if the valuation of the practice is at fair market price and includes the use of last 3 years of profit/loss statements, tax returns, and productivity reports.<sup>1</sup> It is important to make sure that you do not strictly look at the tax returns to identify the profitability, because these numbers can be skewed for various reasons. The analysis must first include the monies flowing to an owner including profits, owner's compensation as a veterinarian, owner's compensation as a practice manager, and any rental income. If this total compensation will cover the principal and interest payments, taxes, and provide sufficient personal income, then it is a fair price and it should be considered safe to move forward with the buy-in process. I want to repeat: the business should be profitable enough and have sufficient cash flow so that the business itself is buying you in, while also receiving an increased salary compared to that of an associate. This is what some call the “holy grail” of buying into a practice. As the

business buys in for you, the financial equity you have in the business is increasing steadily. So not only should you have an increased salary due to becoming an owner, you should also have the business buying in for you with the purchased equity as the compensation. Lastly, when and if you sell, you can also enjoy the increase in value the practice has incurred under your tenure.

### **Buy-Sell Agreement**

The last step in making sure that buying into and selling out of a practice is a smooth process is making sure that the operating agreement, also known as the buy-sell agreement, is fair to all parties. This is the key document laying out how the ownership stake will be divided, the terms of the buy-in and buy-out, and what happens in the event of marriage, divorce, bankruptcy, disability, or death. It also details how the purchase price will be determined, and usually sets up a non-compete clause if there isn't already one in place. It is vital that you do your due diligence to make sure this document is fair, especially if you are the first associate to buy in or you are buying the practice outright. A veterinary

attorney should be involved when creating or updating the buy-sell document.

### **Conclusion**

There are 3 separate but equally important factors to consider when buying into a practice. You must first develop your right brain to improve skills that will make a more successful and effective leader, you must make sure that the practice is a good fit culturally and financially, and you must make sure that you have a buy-sell agreement in place that is fair to both the buyer and the seller. These three activities will allow you to make an informed decision while also setting you up to succeed as an owner of a veterinary practice.

### **Reference**

1. McCormick D, Everhart S. *Practice purchase feasibility analysis*. [ebook] 2016. Available at: <https://simmonsinc.com>. Accessed 20 January 2021.