

Exit/succession planning

David McCormick, MS, CVA
Simmons & Associates, State College, PA 16801

Abstract

Planning for your exit can make a significant difference as to how and when you exit as well as what your practice may be worth. Starting early helps make sure that you end up where you want to be instead of just an exit. This article contains checklists and information to help prepare for an exit from ownership.

Key words: ownership, succession planning, sell, buy, buy-in

Planning for your exit can make a significant difference as to how and when you exit as well as what your practice may be worth. The exit could involve selling the practice to another veterinarian that does not work in the practice. It could also involve selling all, or part of your practice to a current associate doctor, or to a corporate consolidator. Having a known buyer helps to define the timeline and potential transition issues. Depending on the details, it is possible that there is no buyer for your practice. Planning for this becomes even more important.

The veterinary practice, of course, by its very nature is a beacon for the strategic planning process. In any veterinary practice there are always a multitude of problems that are awaiting solutions. The strategic planning process can be particularly effective when targeted toward increasing practice value, a common goal in most exit strategy planning. Developing and executing an effective exit strategy program takes time; a minimum of 3 years should be allowed.

Components to consider

- Your team of advisors (you do not have to be alone!)
 - ◆ your significant others (spouse, family, etc.)
 - ◆ accountant and financial planner
 - ◆ legal advisor/attorney
 - ◆ veterinary practice appraiser and possibly a practice broker
 - ◆ a veterinary practice management consultant
- Your assets: establish a baseline value for each
 - ◆ practice appraisal
 - ◆ real estate
 - ◆ other business and personal assets
- Your liabilities: long term, business and personal
- Identify areas where effective change/improvement can be made to maximize the value of your assets, including your practice.

Key to the success of any strategic planning program is the periodic reassessment of the plan. Review the established goals based on the current situation then restate and establish new goals. At least annually, a major periodic reassessment with the key members of your team of advisers should be scheduled. During these major reassessment times, the consultant's role is to provide balance and to help make sure changes occurring is at an early as possible and to prevent proper direction.

Planning your exit has many aspects to it, but central to the process is the practice. What is its value? Most practice owners are familiar with having their practice appraised when it is time to exit from ownership. Unfortunately, having your practice appraised for reasons other than a sale is often overlooked completely and a properly done appraisal can be a powerful management tool.

The first step in a practice appraisal is to assess the practice's profitability. "Profitability" means something different to your veterinary appraiser than it does to most practice owners. The profits (also referred to as earnings or cash flow) represent the revenues remaining after paying all the customary and legitimate operating expenses of the practice, after paying a fair market rent (even if the practice owner also owns the real estate) and after fairly compensating the owner for his/her work as a veterinarian. The true profitability of the practice is the owner's return for owning and operating the business.

Practice tax documents and financial statements rarely reflect the operational profits. Instead, they can vary widely depending on practice management and accounting policies. Because of this, a thorough financial analysis must be done to assess the operational profitability on a normal and on-going basis. This analysis is instrumental to the appraisal. It is what makes a practice appraisal such a powerful diagnostic tool for the financial health of the practice.

The cash flow analysis puts a critical eye on the revenues, the expenses and the resulting operational profits. If any element seems atypical or if the profits seem low, your veterinary appraiser can help to identify the issues. All too often, these issues can be creeping quietly in the background while the owner is either unaware of their existence and/or unaware of what it means to the practice cash flow and the practice's value.

An appraisal for management purposes is a tool that can help increase your awareness of the financial health of your practice. In general, it is recommended to value your practice every 3 to 5 years. This way, if the value is not what you need to get from the sale, you still have time to make change.

When managing to increase practice value, there are two general areas that determine a practice's earnings, the revenue and the expenses. Because most of a practice's expenses are relatively fixed, it is usually better to focus on increasing revenue than to try to decrease expenses. Increasing revenue is the key to increasing value, if your practice's expenses are already under control.

Coincidentally, working to increase your practice value typically involves increasing the service you are providing to the pets and the clients. Quality medicine and exceptional service not only attract clients and keep the staff energized, when managed it also leads to greater profitability and thereby greater practice value. You cannot have one without the other.

The following is a general timeline for preparing for your exit from practice:

3 years (minimum) before your target exit

- Set aside the time to write down your goals for the next few years. Develop a timeline for the steps and consider what you will be doing with your time after practice.
- Have a practice appraisal performed by a competent veterinary practice appraiser. This will provide baseline information on the value of your practice and can help with your financial planning for retirement.
- Use the practice appraisal to identify areas where improvements can be made. Manage for revenue and earnings growth.
- Consider hiring a practice consultant if it may help you and the practice.
- If possible, begin to identify potential practice buyers.
- Take an active role in your practice – no coasting! Where applicable, begin delegating management responsibilities to key staff.
- Make sure there are no environmental concerns – buried gas tanks, X-ray chemical dumps, etc.
- Resolve, if possible, any real estate zoning compliance issues which might impact transfer.
- Concentrate on enjoying practice; avoid burnout.

1 year before your exit

- Thoroughly clean the facility and repair minor cosmetic damages, paint, landscape, etc. Make sure the vehicles are in good shape and appropriately stocked with equipment.
- Make sure all is up to current medical standards: imaging, computer management system, etc.

- Secure assignable, non-compete agreements with associates when applicable.
- If the facility is leased, the lease should have a life of at least 5 years. It is easier for the new owner if the lease is renewable and transferable.
- Check equipment leases for pre-payment penalties – usually, they are paid off at closing.
- Examine your own financial needs following the sale.
- Order a commercial real estate appraisal.
- Prepare practice records for buyer's review – financials, contracts, employee records, referring practitioners and frequencies, etc.
- Prepare the lists of the equipment and the inventory.
- Begin discussions with your target buyers and/or your veterinary practice broker.

Selling a veterinary practice is probably the largest financial transaction made during one's lifetime and involves much more than just setting a price. Advance planning, providing for the continuity of practice operations, and preparing the facility for sale are a few of the essentials necessary to help maximize the transaction. Considerations toward one's life after practice, coupled with an understanding of the emotions associated with selling a practice, also help to facilitate the transition.

Plan – Prepare – Execute – Retire Happy!

