Hazlewoods

Veterinary Matters

Buying a veterinary practice

Are you looking to buy into a veterinary practice?

Are you an employee at a veterinary practice seeking advice on buying in or looking to buy a practice outright?

The market continues to change which generates opportunities for vets (or others) both looking to buy into a practice that they currently work at or to buy a practice outright due to an outgoing vet's retirement. It is important to take up-to-date professional advice for such a crucial decision so that you know what to expect at each stage.

The below summarises the main stages of the acquisition process.

What are you buying?

It is important to understand what you are buying and how the structure of the business will look. The current business could be trading as a sole trader, partnership, limited liability partnership (LLP) or a company but you need to consider your own circumstances to ensure that the trading vehicle you use going forward is both practical and tax efficient for you.

Valuation

Valuations for internal sales are usually EBITDA (earnings before interest, depreciation and amortisation) based but can be based on turnover if profitability is low. The aim is to calculate the practice's underling performance and so adjustments are made for elements such as market rate owner salaries, market rent and normalising any unusual one-off income or expenditure.

A multiple is then applied to the EBITDA to calculate the gross enterprise value (GEV), which is the valuation for the goodwill and equipment of the practice (sometimes also leasehold improvements and practice vehicles).

Example EBITDA and company value:

	£'000
Profit before tax	200
Addback: Interest payable	5
Depreciation	15
Amortisation	10
Directors' remuneration	15
Directors' pension	20
One off costs in P&L: Redecoration of reception	5
Less: Market rent adjustment	(20)
Imputed salaries for owners	(150)
EBITDA	**100**
Multiple (varies, illustrative only)	4
GEV	**400**
Net assets (excluding fixed assets and goodwill)	150
Share price (before tax)	**550**

A similar calculation is done for a partnership or LLP buy in, which is used to calculate the required capital account contribution rather than a share price. For a sole trader, it is typical to purchase the GEV as calculated above, plus stock and sometimes debtors.

A discount to goodwill is usually considered for affordability and to reflect your contribution to goodwill, especially if you have been working at the practice for a number of years. This would apply to non-vets as well although would be considered in a different way in terms of contribution to the business, i.e. not necessarily in respect of client turnover generated.

Multiples used for individuals are considerably less than those offered by the corporate groups. This is because a corporate can improve performance through buying power, economies of scale and cross selling such as referrals and out of hours, whereas an individual is not able to have the same impact on the practice and therefore cannot build this into the value for the practice in the same way as the corporates.

Multiples used can vary depending on practice mix between small animal, farm and equine.

The detail is thoroughly explained in our valuation reports.

Affordability & funding

As part of our advice we also consider affordability for you, the buyer.

Ideally you will want to be able to repay a business loan over a 10-15 year timeframe and see an increase in your take-home earnings to make the purchase worthwhile. Return on capital and payback period are key factors to consider here and ultimately, in some instances, could affect the valuation of the business as it needs to be affordable otherwise no-one would be able to buy in.

Affordability can be more difficult for non-vets because of the differential between the likely remuneration required to cover the financing and what a normal salary might be for that role. Also, funding is generally harder to obtain for non-vets and the choice of funders will be limited. It will be down to individual circumstances.

We can assist in helping you source funding for the transaction including preparing any projections required.

Negotiation, sale agreed & heads of terms

The negotiation process will vary depending on the nature of the transaction and existing relationships involved.

With a buy in to a practice where you are employed, it is likely that some terms will have already been discussed and you will be signing up to an existing partnership or shareholder agreement. For an outright purchase it is important to identify the key points to negotiate as you will be taking on an existing business with a history. Whatever the circumstances, we can advise you on all of the crucial matters so that they are addressed at the early stages of the transaction.

For an outright sale, once the sale is agreed in principle, solicitors are appointed by the buyer and separately for the seller. A heads of terms document is drafted which sets out the main agreed terms between you and the seller. The document should be reviewed by your solicitor for the legal aspects and your accountant (i.e. us) from a financial perspective. The heads of terms are signed by both you and the seller.

If you are buying into a practice then heads of terms are not necessary and, instead, an instruction letter to the solicitors setting out the terms and the documents required is more often used. Quite often the same solicitor will act for both parties or the business in this scenario.

Due diligence & practicalities

You may wish to undertake some due diligence/ investigations into the practice on aspects of a financial, tax, employment, legal and commercial nature. The amount and detail that you choose to go into will depend on the type of transaction and how well you already know the practice. If you are buying the practice outright and you have not worked at the practice, then due diligence in all of the areas mentioned above should be undertaken. If you already work at the practice and you are given financial data on a regular basis then you may not feel the need for full financial due diligence.

If due diligence is required we would assist you on the financial and tax side and your solicitor on the employment, legal and commercial side. A report is prepared which can then be used to ensure that the legal documents contain the appropriate level of warranties and indemnities for the seller to agree to. These act as protection against any claims against the practice (e.g. clients or employees) for which the seller may remain liable after sale.

Sale/purchase agreement, other legal documents, completion & completion accounts/apportionments

Legal documentation will be drafted by the solicitors in anticipation of the sale taking place on a proposed date. This will be a share purchase agreement (SPA) for a share sale or a business purchase agreement (BPA) for a trade and asset sale. For an outright sale, your solicitor will prepare the first draft of the legal documentation for review by you, us from a financial perspective and the seller's accountant and solicitor. As mentioned previously, if you are buying into a practice then the advisers might be the same for both sides.

The agreement will typically include:

- Details of price, how this is constructed and when paid
- The structure of the sale
- The mechanism for any settling up for estimates paid at completion e.g. net assets for share shales and stock and debtors for trade and asset sales (see below)
- Warranties and indemnities
- Obligations of you and the seller at completion
- Restrictive covenants where applicable.

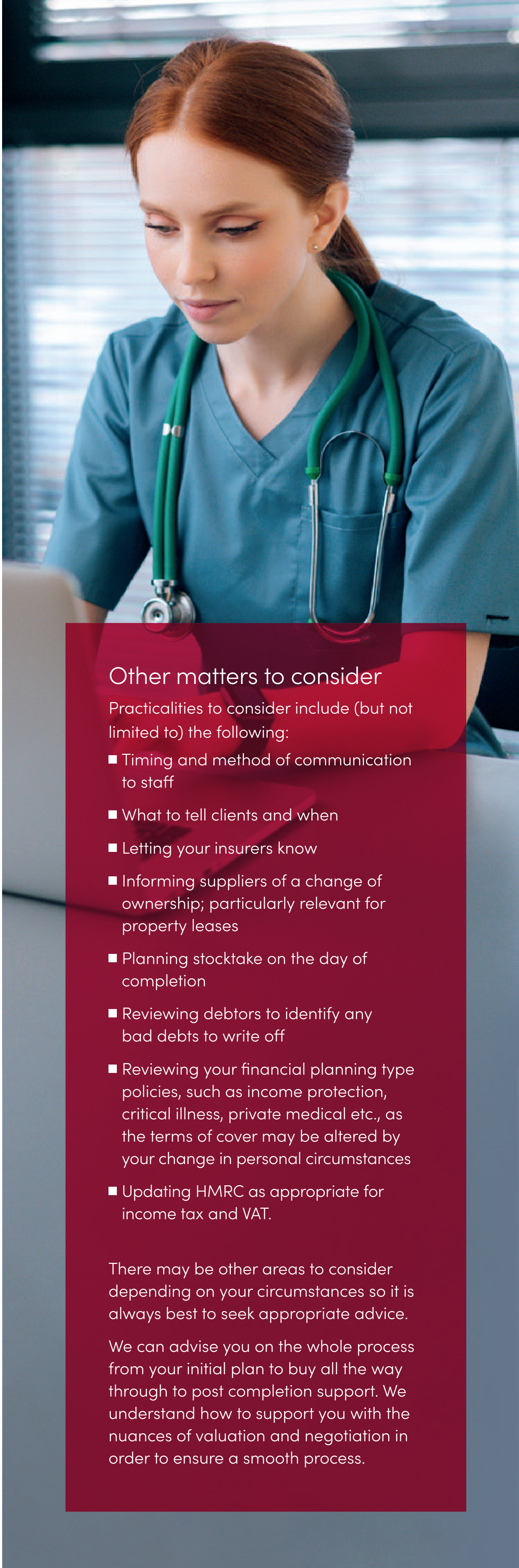
Once the sale agreement is in final form, completion can take place.

If you are buying into a partnership or company then there is likely to be a deed of adherence for you to sign up to the terms of the existing partnership or shareholders agreement.

Completion accounts or apportionments for settle up

At completion, you will pay for the business as agreed. As mentioned earlier, part of the price will be for net assets (share sale) or stock and debtors (asset sale). The amounts at the date of completion will not be known until after completion. Most of the time an estimate is paid at completion and then there is a settle up once the final amounts are known. In the case of a share sale and a buy in to a partnership, completion accounts are prepared to establish these values (net assets in EBITDA example above). Sometimes an estimate is made to completion and a settle up is not required if all parties agree.

If you are buying the trade and assets of a practice outright, rather than shares, then apportionments are prepared to settle up on the costs paid pre completion by the seller that relate to post completion, and costs paid post completion by the purchaser that relate to pre completion. They also allow for balances on other items to be agreed and paid, for example the actual stock and debtors (latter if being purchased) compared to their estimated values paid at completion.



Other matters to consider

Practicalities to consider include (but not limited to) the following:

- Timing and method of communication to staff
- What to tell clients and when
- Letting your insurers know
- Informing suppliers of a change of ownership; particularly relevant for property leases
- Planning stocktake on the day of completion
- Reviewing debtors to identify any bad debts to write off
- Reviewing your financial planning type policies, such as income protection, critical illness, private medical etc., as the terms of cover may be altered by your change in personal circumstances
- Updating HMRC as appropriate for income tax and VAT.

There may be other areas to consider depending on your circumstances so it is always best to seek appropriate advice.

We can advise you on the whole process from your initial plan to buy all the way through to post completion support. We understand how to support you with the nuances of valuation and negotiation in order to ensure a smooth process.

Hazlewoods

Your key contacts

Mark Harwood

mark.harwood@hazlewoods.co.uk

Rachel Vines

rachel.vines@hazlewoods.co.uk

Suzanne Headington

suzanne.headington@hazlewoods.co.uk

Natalie Adams

natalie.adams@hazlewoods.co.uk

Robert Groves

robert.groves@hazlewoods.co.uk

SCAN ME

Receive our business updates via email

Hazlewoods LLP and Hazlewoods Financial Planning LLP produce regular updates, using our expert commentary to provide you with information about our services, events and topical premium business news.

01242 680000

hazlewoods.co.uk

@Hazelwoods