

Veterinary Matters



**Selling your
practice to a
corporate group**

Are you thinking about selling your **veterinary practice** to a corporate group

If you are a veterinary practice owner considering selling to a corporate group, there are various matters to think about and you will no doubt have lots of questions, including:

- Is now the right time?
- How will my practice be valued?
- How long will I have to stay on for?
- Who can I sell to?
- How will my staff and clients be affected?

The market for selling veterinary practices continues to change, and it is crucial to understand these changes and take up-to-date professional advice when it comes to such a big decision.

The below summarises the main stages of a sale process to a corporate group and matters to consider at each stage.

Preparation for sale & what to sell

It can be beneficial to start preparing for sale at least two years in advance, if possible. This provides the opportunity to improve the performance of the practice and therefore the valuation. Consideration should also be given to what to sell and how to best structure the sale, both practically and tax efficiently for you.

Initial market analysis

The Competition and Markets Authority (CMA) have launched a full review into the veterinary sector which involves investigations into transactions leading to what they see as anti-competitive market penetration. This could limit the number of potential acquirers for your practice. It is key to analyse the position at an early stage to establish who the potential acquirers are to avoid incurring any unnecessary costs.

Your adviser should be identifying competitor practices for you on a map, both corporate and independent, in order to establish the competitive landscape.

Once you have decided who to approach, a confidentiality agreement, often referred to as a non-disclosure agreement (NDA), should be put in place and the potential acquirers can do their own market analysis so that you fully know your options.

Valuation

Valuations for corporate sales are usually EBITDA (earnings before interest, depreciation and amortisation) based. The aim is to calculate the practice's underlying performance, and so adjustments are made for realistic owner salaries, market rent and normalising any unusual one-off income or expenditure. The EBITDA calculation needs to stand up to scrutiny to avoid issues in the future due diligence stage.

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 for leasehold improvements and practice vehicles).

If the practice is a company then you would also be paid for the other net assets on the balance sheet (e.g. cash, debtors, stock less creditors and liabilities) at the date of completion. This is a share sale.

If you are a sole trader or the practice is a partnership or LLP, then you will also be paid for stock and potential debtors depending on the buyer, as well as apportionments for prepayments and accruals. This is known as a trade and assets sale.

An example EBITDA and share price is shown in the table below:

	£'000
Profit before tax	500
<i>Addback:</i>	
Interest payable	5
Depreciation	15
Amortisation	10
Directors' remuneration	15
Directors' pension	20
<i>One off costs in P&L:</i>	
Redecoration of reception	5
<i>Less:</i>	
Market rent adjustment	(20)
Imputed salaries for owners	(150)
EBITDA	400
Multiple (varies, illustrative only)	x 8
GEV	3,200
Net assets (excluding fixed assets and goodwill)	150
Share price (before tax)	3,350



We can advise you on the whole process from your initial plan to sell, to post completion support. We know all the key buyers and understand how to support you with the nuances of valuation and negotiation, in order to help you secure the best possible package for you.

The EBITDA calculations are presented in our information memorandum (discussed below). The corporates use this to make their offers after making their own adjustments for expected changes under their ownership.

Multiples used by the corporate groups vary depending on:

- Practice size
- Current trading performance
- Gross profit margin
- Staffing levels and costs
- Dependence on current owners and how long they are likely to stay on for
- Practice disciplines
- Region
- Corporate strategy
- Competition
- The market in general

This stage allows you to establish the proceeds you may receive on a sale and how much that equates to after tax, fees and repayment of any loans.

Information memorandum & meeting potential purchasers

An information memorandum (IM) or sales brochure is prepared to give potential purchasers an insight into your practice and enable them to consider whether they would like to make an offer to purchase it.

An IM would typically include the following:

- A brief history and background of the practice
- How you wish potential purchasers to make their offers and by when
- Copies of accounts, summary of financial performance and a detailed EBITDA
- Facilities and equipment details
- Practice property details, and whether the property is for sale or a lease is offered
- Pricing
- Key suppliers
- Practice photos and floor plans

For any interested buyers, separate meetings are arranged with each corporate group and yourselves, supported by us. This gives an opportunity to discuss your practice in more detail and, just as importantly, for the corporate group to provide a clear picture of what ownership by them would look like.

Offers, shortlisting, negotiation, sale agreed & heads of terms

Offers are received and we will help you compare these offers before coming up with a shortlist, if applicable. It is also important to see what the net position after tax would be for each individual owner at this stage.

In most cases, the offer is likely to include an element of deferred proceeds or growth payments (or both). Understanding the mechanism of how these work is key in evaluating the offers.

There is almost always something to negotiate, be it the price itself, details around restrictions on you post sale, employment terms, etc. Your adviser should be handling this for you to achieve the best offer available.

The sale is then agreed in principle with the preferred buyer, after which point a heads of terms document is drafted. The heads of terms set out the main agreed footings between you and the buyer. The document should be reviewed by your solicitor and us from a financial perspective and, once agreed, are signed by both you and the buyer.

The heads of terms will normally refer to a period of exclusivity, the length of which can vary. During this exclusivity period, the purchaser will undertake due diligence in the knowledge that the practice should not be offered for sale to another party.

Due diligence & practicalities

Due diligence is a purchaser's investigation into the practice, often supported by their advisers. It can cover any aspect including financial, tax, employment, legal and commercial matters. If you are selling the shares in a company, the due diligence process is normally more involved than if you are selling an unincorporated practice (i.e. sole trader, partnership or LLP), as with a company sale, the buyer would be taking over 'ownership' of the company's legal, tax and financial history and all its assets and liabilities.

Due diligence will be a time consuming process for you as seller. Therefore, it is good to be prepared and ensure your practice records are in good order early, to make responding to the due diligence requests as smooth as possible, and to avoid any unwanted surprises. We would assist you on the financial and tax side and your solicitor on the legal side.

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

- Timing and method of communicating to staff
- Employment legislation (e.g. TUPE)
- What to tell clients and when
- When and how to best advise suppliers
- Informing your bank
- When and how to settle any directors loan account balances
- Whether and when bank loans are being paid off
- Letting your insurers know
- Planning for a stock take on the day of completion
- 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 following the sale
- Taking advice on what to do with the proceeds from sale
- Deregistering for VAT and PAYE (trade and asset sales)

Staff are very important to your practice, so ensuring that they are looked after as part of the sale is understandably towards the top of many owners selling wish list. Discussing staff with the purchaser, including how and when the sale will be communicated to them is a sensitive matter that needs careful consideration. Employment legislation (e.g. TUPE) needs to be considered with your solicitor as part of this.

Legal documents, exchange, completion & completion accounts/apportionments

Following the successful completion of due diligence, legal documentation will be drafted by the solicitors in anticipation of the sale taking place on a proposed date. This will be a sale and purchase agreement for a share sale, or a business purchase agreement for a trade and asset sale. Normally the purchaser's solicitor will prepare the first draft of the legal documentation, for review by you, by us from a financial perspective and by your solicitor from a legal perspective.

The agreement will typically include:

- Details of price, how this is constructed and when paid
- The structure of the sale
- Guidance on how completion accounts (share sales) or apportionments (trade and assets sales) will work in practice
- Warranties and indemnities
- Obligations of you and the buyer at completion
- Restrictive covenants
- How any deferred or growth payments can be achieved

Once the sale agreement is in final form, it is now common for some corporate groups to exchange contracts before obtaining clearance from the CMA. Once the clearance has been received completion can take place.

Practicalities for the day will need to have been considered in advance e.g. changing the bank mandate and arranging for a stock take to be done.

After this point, completion accounts (for a share sale) or apportionments (for a trade and asset sale) are prepared up to the completion date.

Completion accounts are prepared with share sales to determine the actual value of the other assets and liabilities (net assets in EBITDA example above) at completion. A payment on account may or may not have been paid at completion in respect of this amount and therefore a final settle up is required based on the actual figures.

Apportionments are prepared with trade and asset sales 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 other items to be settled up on, such as the actual stock and debtors (latter if being purchased) compared to their estimated values paid at completion.

Post-sale, your accountant will also need to prepare your individual tax return which will include the capital disposal and it will be important to liaise with your independent financial adviser as to how you may invest some or all of the proceeds from the sale.

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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.

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