

# Veterinary Matters

A photograph of a brown and white dog running happily in a grassy field. The dog's tongue is out, and it is looking towards the camera. In the background, a person wearing a plaid shirt and jeans is walking away from the camera. The scene is outdoors with trees and a clear sky.

**Selling all or a  
share of your  
practice to  
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# Are you **selling all or a share** of your practice to an existing or incoming vet?

Do you have an enthusiastic, experienced vet within the practice who is keen to buy into the practice? Are you aware of a vet who is interested in joining the practice as an owner?

It is important to take up to date professional advice when it comes to such a big decision so that you know what to expect at each stage.

The below summarises the main stages of a sale process to an individual, whether an existing employee or a new vet, both of which are referred to as an internal sale.

## **Preparation for sale & what to sell**

It can be beneficial to start preparing for sale one year to 18 months in advance, although this is not a necessity. This can be helpful so that consideration can be given to what to sell, who to sell to and how to best structure the sale both practically and tax efficiently for you and your buyer. It also allows time to organise appropriate funding.

If you are a company, then you will be selling shares. If you are a partnership, sole trader or Limited Liability Partnership (LLP), then it is a trade and asset sale for which a capital contribution is calculated, including goodwill.

## Valuation

Valuations for internal sales are usually EBITDA (earnings before interest, depreciation and amortisation) based. The aim is to calculate the practice's underlying performance so that adjustments are made for market owner salaries, market rent and normalising any unusual one-off income or expenditure amounts.

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 this also includes leasehold improvements and practice vehicles).

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

	<b>£'000</b>
Profit before tax	200
<i>Addback:</i>	
Interest payable	2
Depreciation	10
Amortisation	10
Directors' remuneration	15
Directors' pension	20
<i>One off costs in P&amp;L:</i>	
Redecoration of reception	5
<i>Less:</i>	
Market rent adjustment	(20)
Imputed salaries for owners	(150)
<b>EBITDA</b>	<b>92</b>
Multiple (varies, illustrative only)	x 4
<b>GEV</b>	<b>368</b>
Net assets (excluding fixed assets and goodwill)	150
<b>Share price (before tax)</b>	<b>518</b>



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.

Once we have calculated the goodwill amount, we may also consider a discount to the goodwill figure to take into account the individual's contribution towards goodwill of the practice (if an existing employee or an individual bringing work with them) and for affordability.

Multiples used are considerably less than those currently 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. Affordability and funding is also a big factor which can dictate the multiple used.

Multiples also vary depending on practice mix between small animal, referral, farm and equine work.

There are also times when a turnover based valuation is more appropriate e.g. where profitability is poor.

## Affordability

As part of our advice we also consider affordability for the buyer. An individual will want to be able to repay a business loan over a 10-15 year timeframe and see an increase in their take home earnings to make the purchase worthwhile. Return on capital and payback period are key factors to consider here.

## Negotiation, sale agreed & heads of terms

Usually there is less need for a negotiation process for an internal sale given the nature of the transaction and existing relationships involved. However, this can vary from transaction to transaction and will obviously be more in depth if the individual is a newcomer to the practice.

Once the sale is agreed in principle, Heads of Terms are often drafted. These set out the main agreed terms between you and the buyer and should be reviewed by your solicitor and us from a financial perspective. They are then signed by both you and the buyer.

At this point consideration should be given to any other agreements that need to be updated e.g. shareholders agreement, directors service agreement or partnership agreement.

## Due diligence & practicalities

Often for an internal sale due diligence is minimal, for example if the buyer has already seen sets of accounts and they have a good understanding of the financials of the practice. Enhanced due diligence might be carried out if it is a new vet buying in. Due diligence is categorised into financial, tax, employment, legal and commercial matters. We would assist you on the financial and tax matters and your solicitor on the employment and legal matters.

Practicalities to consider include the following:

- Timing and method of communicating to staff
- What to tell clients and when
- Informing your bank
- Letting your insurers know
- Planning for a stock take on the day of completion
- Reviewing debtors to identify any bad debts that need writing off
- Reviewing your financial planning type policies, such as income protection, critical illness and private medical, as the terms of cover may be altered by your change in personal circumstances following the sale.

There may be other areas to consider depending on your circumstances.

## 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 sale and purchase agreement for a share sale or an asset purchase agreement for a partnership or sole trader. Normally the purchaser's solicitor will prepare the first draft of the legal documentation, which will then be reviewed by you, by us from a financial perspective and by your solicitor from a legal perspective.

The agreement will typically include:

- Details of price and when paid
- The structure of the sale
- Guidance on how completion accounts (share sales) or capital account contribution (trade and assets sales) will work in practice
- Warranties, disclosure and indemnities
- Obligations of you and the buyer at completion
- Restrictive covenants

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

In most cases, a set of completion accounts are prepared up to the completion date to establish the net asset position and the final share price or capital account contribution required. An estimated value of the share price or capital account contribution is normally paid at completion which is settled based on the actual value once known.

Sometimes for internal sales an estimate to completion is agreed where no further settle up is made.

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

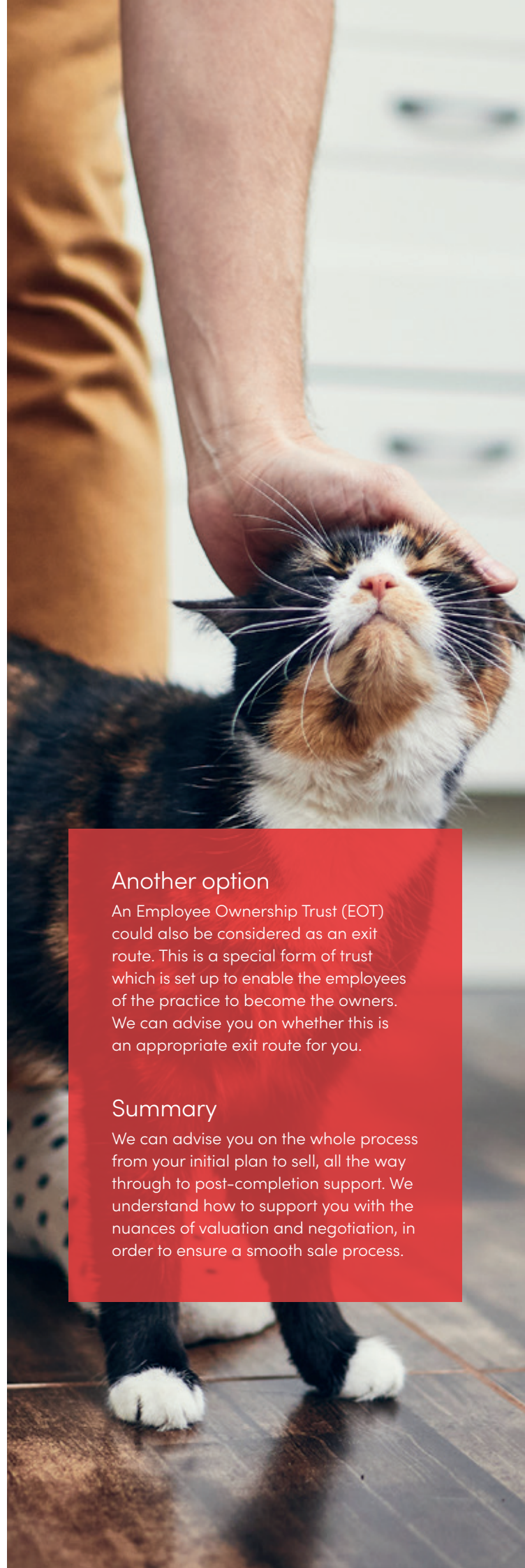
We can advise you on the whole process from your initial plan to sell, to post-completion support.

### Another option

An Employee Ownership Trust (EOT) could also be considered as an exit route. This is a special form of trust which is set up to enable the employees of the practice to become the owners. We can advise you on whether this is an appropriate exit route for you.

### Summary

We can advise you on the whole process from your initial plan to sell, 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 sale process.



## Your key contacts



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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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