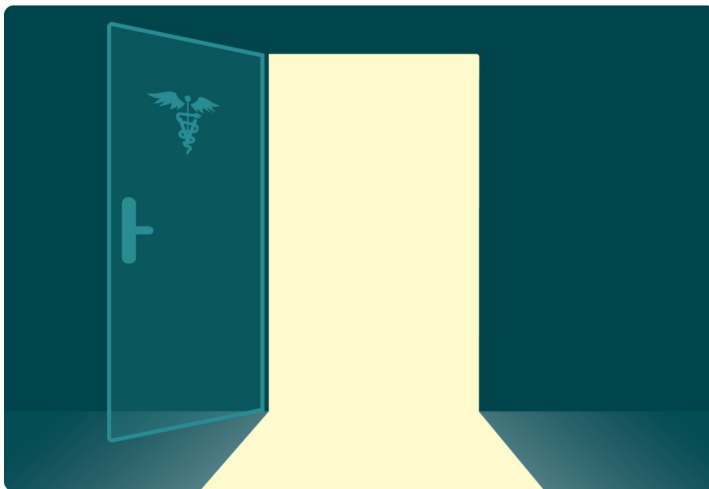




Finance

# Practice Ownership Exit (and Entry) Strategies



Many practice owners start thinking about selling too late—whether they hope to sell to an individual or a corporation. That’s because finding a practitioner-buyer other than an associate can take several years, and consolidators typically require sellers to keep working for years. So what do you do?

Roxanne Hawn

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## Veterinary Consolidation and Opportunities for Innovation in Private Ownership

A *Pet Industry Outlook: Veterinary Services and Pet Product Retailing* report in 2018 from Packaged Facts projected 30% of veterinary practices going up for sale between 2018 and 2028. Not surprisingly, that estimate mirrors veterinary practices still owned by Baby Boomers looking to retire.

According to Monica Dixon Perry, CVPM, though, there's really a spectrum of possible sellers, including younger veterinary owners. "It used to be if you were going to sell, you were doing it more for retirement purposes, and that's definitely not the case anymore," she says. "Some people are trying to sell because just running and operating a practice is overwhelming."

Here's the hitch: Many practice owners start thinking about selling too late—whether they hope to sell to an individual or a corporation. That's because finding a practitioner-buyer other than an associate can take several years, and consolidators typically require sellers to keep working for years.

Younger owners, ages 60 and below, should start thinking about their own exit strategies and monitor the changing marketplace. Dixon Perry says, "I honestly think that when you first purchase your practice or your startup, that there should be somewhat of a thought process of 'what would my exit strategy look like?'"

In the current state of veterinary ownership, options exist for both buyers and sellers, but there's little chance things will go back to the way they were.

## 50% Consolidation in 2024

For one thing, Win Lippincott with Ackerman Group describes a bifurcated market that separates practices sellable to "corporate entities" and those that aren't, namely, one-doctor practices and/or those in places where the demographics and costs don't support profitability. Ideal practices for corporate purchase now need good geographies, four or more doctors, and over \$750,000 of earnings before interest, taxes, depreciation, and amortization (EBITDA), according to an Ackerman Group report. Left somewhere in the middle? Two- and three-doctor practices.

People often cite estimates that consolidators own approximately 80% of specialty hospitals and around 30% of general practices. However, Lippincott explains that if you look at the bulk of the veterinary market—general, specialty, and ER/urgent care—but exclude one-doctor practices and clinics in places like Tractor Supply as well as vaccination-only and spay/neuter clinics, then "50% of the market will be consolidated this year. It will cross that threshold."

Minus those exclusions in the future, Lippincott says, "about 90% of this profession could be consolidated."

## The Future of Private/Locally Owned Practices

Does this mean the extinction of private and locally owned practices? Probably not, but it'll take creativity.

"I think that the future of independent practice is very bright," Peter Weinstein, DVM, MBA, says. "I think it's our responsibility, globally, but even more so the independent hospital owners to come together collaboratively and work to keep a strong focus on creating more and more successful, independent practices for the future. I believe there's a great place for corporations in the profession, but I also think that the heart and soul, the bread and butter, and whatever cliché you want to put in there, is all about the veterinarian who is part of and contributes to the community."

Dixon Perry agrees that some in the profession want private ownership "to still be a living, breathing part of what has molded the veterinary industry

over decades.”

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**Peter Weinstein, DVM, MBA**

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Despite the current pressures in veterinary medicine, she adds, “It doesn’t mean you can’t be a business owner or an effective business owner when things happen. I think if there were resources out there for veterinarians to better prepare them for the pros and cons of ownership, then it wouldn’t have been such a tough road for a lot of folks when COVID hit.”

Weinstein’s part in possible solutions is an “online product that will provide 24 hours of training for those individuals who want to buy a hospital or start up a hospital.” It’s called Veterinary Ownership Advocates and launched in spring 2024.

Lippincott says, “For the segment where their only opportunity is to sell to another doctor, this market segment has been incredibly stable for decades.”

Yet, consolidation activity inflated owners’ perceptions of practice valuations. Often, there’s a mismatch between what the seller wants financially and what practitioner-buyers can pay or banks will loan.

“There’s just too big of a gap between what the perceived value is by the owner and what their actual value is on the marketplace,” Cody Creelman, DVM, says. “It’s only worth something if you can sell it... Owners aren’t recognizing or realizing things have shifted dramatically [since December 2022]. This is a buyer’s market; there’s no question.”

For those hoping to sell, there are a number of avenues to explore.

## **Succession Via Associate**

Veterinary ownership followed a predictable pattern of succession from about the 1960s to the early 2000s, with one generation easing the next into ownership. These sales still happen, just not nearly as much and only for smaller practices. Such direct succession requires alignments in finances, values, timing, and even interest in veterinary practice ownership, all of which shifted with generational, demographic, and debt changes in the profession.

Creelman says, “There’s now an orphan generation of veterinarians that nobody’s talked to, for the last 10 years, about whether business ownership is a good idea. That old model is completely broken, so now you’re going to have veterinarians across the board essentially close their practices because there’s nobody left to buy them.”

Creelman adds that corporate consolidation contributed to this gap in

ownership consideration for many younger veterinarians. Yet, he explains, “I’m not saying that corporate consolidation is bad. What I’m saying is that there was definitely a fundamental shift. Essentially there was now this new corporate buyer, and nobody was focusing on these associates.”

## **Doctor-to-Doctor Sales**

For smaller practices that consolidators overlook such as one- and two-doctor practices, a sale to another practitioner can take years, depending on location, before “you find someone who’s even willing to kick the tires,” according to Lippincott.

“It’s incredibly reliant on geography,” he said. “You need to find a doctor who wants to live in your city and who doesn’t want to work with you. They want to fill your shoes.”

Weinstein sees a way forward for sellers of seemingly stranded practices. They may be exactly what Gen Z and younger desire.

“Going to a small town and being an integral part of the community is a great way to give back,” Weinstein said.

## **De Novo Practices**

The term de novo refers to veterinary practice startups that hope to approach practice and clients in fresh ways. For example, Creelman describes Fen Vet, a de novo he founded in Canada, as “reimagining the veterinary care experience” by using methods from a book called Blue Ocean Strategy. From three practices now, he hopes to build a chain of 100 veterinary clinics and “convert my business entity into an ESOP, an employee shared ownership plan, where employees then become the owners at the end of my career.”

## **No-Lo Practices**

This term refers to veterinary practices that—by design or default—generate little or no purchasable value to anyone else; they simply pay the DVM’s personal bills. Weinstein calls it “owning your job.”

Yet, he suggests setting up a veterinary business that supports what practitioners want lifestyle-wise could include creative partnerships of two or more doctors to “build a business that has greater value than either one of them would have working by themselves.”

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*“Gone are the days when VCA shows up at your practice with a briefcase of cash.”*

**Win Lippincott**  
Ackerman Group

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## Corporate Consolidators

Veterinary consolidation purchases dropped considerably starting in December 2022, after several wild-west years with record-high valuations and booming practice sales when borrowing money seemed free and risk seemed low. If not entirely burst, the bubble sprang a significant leak. Interest rates rose, skyrocketing pandemic demand for care normalized, and consolidators felt the brunt of veterinary business realities.

“There really has been a reset,” Chris Kelly says. Via his work at Antelligence, Kelly provides financial news, mergers, acquisitions, trends, insights, and data from the animal health market. He explains that during the heyday of consolidation, some people did very well, but the pace has now slowed.

With hopes of 2024 interest rate cuts dashed, the number and values of practice purchases likely will not rebound as much as predicted. Plus, Lippincott says, “Gone are the days when VCA shows up at your practice with a briefcase of cash.” Gone too? EBITDA multiples in the high teens. In addition, expect less cash up front and more complex, “structured” deals. For context, similar trends are happening in human dentistry consolidation, with a mirrored drop in both purchases and valuations.

Now, consolidators offer enticements to sellers to keep them working in the practice:

- Earn outs, where sellers receive a second, later payout if the practice

performs above thresholds set in the sales contract.

- Cash plus TopCo stock, where a percentage of the purchase price is cash, and the rest is paid in stock of the parent company.
- Joint ventures, where the consolidator buys into the practice (more than 51%, but less than 90%)—turning the seller into a minority owner, who then can benefit from pro-rated profits as well as a later full buyout at the practice’s anticipated higher value.
- Equity or buy-in options for associate veterinarians, from some consolidators.

Potential equity gains are more likely if/when the private equity group later “recapitalizes.” Roger Redman, DVM, also with Ackerman Group, explains that means the consolidator does not change, but the bank or private equity group funding them does.

The phrase “golden handcuffs” warns of potential repercussions of these incentives and of not sticking around or not transitioning effectively.

Redman sees these deals from all sides. He sold his practice to a corporate entity. He worked for a veterinary corporation, and now he represents DVM sellers seeking corporate deals. He says that these consolidation sales help practitioners “get rid of a lot of the administrative burden,” including HR, benefits, taxes, legal, and marketing. “Now,” he says, “I get to concentrate on what I love doing, and that’s taking care of our four-legged friends.”

In addition, Redman mentions that practitioners who also own the land and facilities may gain real estate benefits from long-term leases to the new owner as well as potential purchase interest from veterinary real estate consolidators.

## Pros and Cons of Different Types of Sales

TYPE OF SALE	PROS FOR SELLER	CONS FOR SELLER	OTHER NOTES
Owner to associate	Pass on legacy in community, Support private ownership, Faster exit	Lower purchase price	Valuation formulas driven by banks
Doctor to doctor	Support private ownership, Faster exit	Lower purchase price, May take years to find buyer, Reliant on geography	Valuation formulas driven by banks
Corporate	Likely higher purchase price, Additional income and equity enticements, Hand off administrative responsibilities, Focus only on patients and clients	Only certain practices eligible, Requirements to stay on as an associate practitioner for several years, Potentially difficult transition	

## Creativity and What Matters (to You)

Dixon Perry recommends being mindful of all the options as well as not waiting “until the 11th hour” to think about selling. Practice owners who want to keep the business privately owned need to hire with future ownership in mind and actively coach and test for a good succession match. Those targeting a corporate sale need to plan for the staying-on period so that the sale doesn’t exceed retirement timeline goals.

Some industry watchers wonder how state or local governments or even developers may get involved to address or prevent veterinary deserts. In demographically at-risk areas, counties or city councils might consider funding a veterinary facility and recruiting practitioners with scholarships or debt help.

Weinstein points to Marshall Goldsmith’s famous quote: “What got you here won’t get you there.” In other words, the future of veterinary practice ownership requires new strategies because the traditional ones probably aren’t coming back.

## What Clients Say & What They Don’t Understand

A 2023 report from Packaged Facts called *Veterinary Services in the US: Competing for the Pet Care Customer* says that, despite consolidation, “local veterinarians are preserving their customer draw: 67% of dog owners and 64% of cat owners who used veterinary services opted for local providers.”

However, this is self-reported survey data, and most consolidators keep the names of veterinary practices the same. This means clients don’t know who really owns practices or how private equity firms affect things.

## Private Equity Concerns

Brendan Ballou’s 2023 book *Plunder: Private Equity’s Plan to Pillage America* and article for *The Nation* called “How private equity is killing your pets” caused a stir. Ballou is a US Department of Justice federal prosecutor, who served as special counsel for private equity in the Antitrust Division.

The book describes several problems with the private equity business model:

It’s based on short-term ownership plans, with fast extraction of cash and little consideration of the long-term health of the companies purchased.

“Because private equity firms invest little of their own money but receive an outsized share of potential profits, they are encouraged to take huge risks. In practice, this means loading companies up with debt and extracting onerous fees,” Ballou says in his book.

With ownership technically divided between several legal entities, he explains, private equity firms are rarely held responsible for the debts and actions of the companies they operate.

In his book, Ballou goes on to say that the “high-risk, low-consequence ownership explain why private equity firms’ efforts to make companies profitable so often prove disastrous for everyone except the private equity firms themselves.” He says this affects consumers because private equity can use their increased market power to charge more and give less in return.

# Market Watch

Interested in tracking the market? Here are some resources:

- *Quarterly Market Update* from Ackerman Group  
**Cost:** Free
- *The Fountain Report* from Antelligence  
**Cost:** Paid subscription, includes quarterly updates to the Enterprise Practice Report

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