



**TOTAL  
PRACTICE  
SOLUTIONS  
GROUP**

PRSRST STD  
U.S. POSTAGE  
**PAID**  
Lee's Summit, MO.  
PERMIT NO. 98

*Veterinary Practice Sales & Appraisals*

19603 Harrelson Drive  
Belton, MO 64012

*Veterinary practice brokers focused  
on the financial success and growth  
of fellow veterinary professionals.*



**TOTAL PRACTICE  
SOLUTIONS GROUP**  
*Veterinary Practice Sales & Appraisals*

Fall 2013 • Volume 6 • Issue 2

[www.tpsgsales.com](http://www.tpsgsales.com)



**Kurt  
Liljeberg**

**George  
Sikora**

**John  
Bryk**

**Bill  
Crank**

**Rebecca  
Ramsey**

**Len  
Jones**

**Richard  
Alker**

**Scott  
Daniels**

**Karl  
Salzsieder**

**Dave  
Davenport**

# Selling or Buying a Veterinary Practice?

**Dr. Kurt Liljeberg – 800.380.6872 – [kurt@tpsgsales.com](mailto:kurt@tpsgsales.com)**  
MN, WI, MI, IN, OH, NY, PA

**Dr. George Sikora – 419.945.2408 – [george@tpsgsales.com](mailto:george@tpsgsales.com)**  
DC, IL, KY, MD, OH, NC, SC, VA, WV / CT, MA, ME, NH, RI, VT, DE, NJ, NY, PA

**Dr. John Bryk – 419.945.2408 – [john@tpsgsales.com](mailto:john@tpsgsales.com)**  
DC, IL, KY, MD, OH, NC, SC, VA, WV / CT, MA, ME, NH, RI, VT, DE, NJ, NY, PA

**Dr. Bill Crank – 419.945.2408 – [bill@tpsgsales.com](mailto:bill@tpsgsales.com)**  
DC, IL, KY, MD, OH, NC, SC, VA, WV / CT, MA, ME, NH, RI, VT, DE, NJ, NY, PA

**Rebecca Ramsey – 912.230.3389 – [rebecca@tpsgsales.com](mailto:rebecca@tpsgsales.com)**  
TX, NM, LA, MS, AL, TN, GA, FL

**Dr. Len Jones – 334.727.2067 – [len@tpsgsales.com](mailto:len@tpsgsales.com)**  
TX, NM, AZ, LA, MS, AL, GA, TN, FL

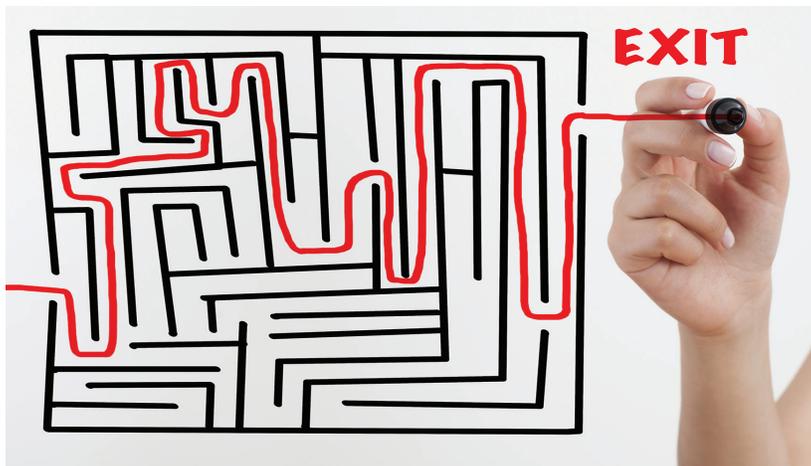
**Dr. Richard Alker – 850.814.9962 – [richard@tpsgsales.com](mailto:richard@tpsgsales.com)**  
FL

**Scott Daniels – 877-778-2020 – [scott@tpsgsales.com](mailto:scott@tpsgsales.com)**  
CA

**Dr. Karl Salzsieder – 360-577-8115 – [karl@tpsgsales.com](mailto:karl@tpsgsales.com)**  
AK, AZ, HI, ID, NV, OR, UT, WA

**Dr. Dave Davenport – 816.331.9449 – [dave@tpsgsales.com](mailto:dave@tpsgsales.com)**  
MT, WY, CO, ND, SD, NE, KS, OK, IA, MO, AR

## Planning an Exit Strategy



The selling of one's practice will be one of the most important decisions that you will make in your practice career. Maximizing its value is something you will want to accomplish.

### Marketability or Desirability of a practice is determined by two main factors:

- **The First is:** "Location, location, location". Location is the number one factor most buyers consider first, when purchasing a practice.
- **The Second is:** Cash flow – "Cash flow is King". Cash flow is directly related to profitability and is the factor that allows the buyer to pay off debt, sales price, and draw a nice salary. It is what makes all practices have value. No cash flow equals no value.

So, what can I do as a seller to prepare my practice, to make it desirable and marketable? Location is something that we have no control over. You cannot move your veterinary hospital or clinic two counties, cities or states away. But, cash flow or profitability is something you can and must control to make the practice desirable and salable.

So, what is the definition of cash flow? Cash flow is what is left from the gross revenue of a practice after all normal business expenses are removed or paid. This includes; utilities, c.o.g.s, lay help and fair rent for the physical facility. In other words, after all expenses are paid, what is left over – which includes all doctor's salaries and benefits, along with excess profit or cash.

Controlling a practice cash flow or profitability is closely related to management skills and attitude.

The well managed practice makes the highest cash flow, not necessarily the practice with the highest gross or revenue stream. Achieving good management is a learned skill, just like clinical skills and is offered to practice owners by many avenues.

Secondly, the right attitude is necessary to develop good management skills. Unfortunately we find in many older practices, a poor attitude, not allowing the veterinarian and staff an atmosphere conducive to profitability. The number one cause of a poor attitude is a "Practice Burn-out".

When burn-out phenomena starts to happen in a practice, falling practice revenue usually results in an exponential drop in net earnings or "cash flow". Once this phenomena; practice burn-out continues, it is not unusual to see an erosion of 10-20% gross earnings in 24-36 months.

The following chart shows a 3% drop in revenue per year and demonstrates how a 10% drop in gross revenue in 3 years will cut the selling price of a practice in half.

### Understanding the Process

Practice Accelerator	Practice Burn-out
• Gross \$750,000	• Gross \$750,000
• 3yrs later \$850,000	• 3yrs later \$675,000
• Cash flow 40% = \$340k	• Cash flow 32% = \$216k
• Dr.'s Salary \$187k	• Dr.'s Salary \$148.5k
• Excess Cash \$153k	• Excess Cash \$68k
• Cap Rate * 4.5 = \$688.5k	• Cap Rate * 4.0 = \$272k
• Hard Assets \$50k	• Hard Assets \$50k
• Market Price \$738.5k 87%	• Market price \$322k 48%

Thus, when thinking of an exit strategy, don't take your foot off the practice accelerator. Call your local TPSG Broker and ask for a practice valuation to help determine where you're at, for an exit strategy.



## BUYING A PRACTICE? YOUR HISTORY AND CLINIC'S ARE KEY

By Vince Dailey

# VETERINARY LENDING

www.liveoakbank.com • 877.890.5867



LIVE OAK BANK

©2013 Live Oak Banking Company. All rights reserved. Member FDIC

In today's market, many veterinarians consider practice ownership an avenue to securing their financial future. There is security in being the boss, dictating medical protocols and having the long-term opportunity to be rewarded for your hard work and time. Often, the key question is not whether to own a practice, but instead how to accomplish the goal. Lenders will ask some key questions as they consider financing a practice acquisition.

A lender will review seven primary items related to the individual borrower as well as the practice.

They are personal credit score, personal debt obligations, personal liquidity, business and personal collateral, experience, business cash flow, and whether the purchase price is supported by standard business valuations.

### CREDIT SCORE AND DEBT OBLIGATIONS

These individual factors are not influenced by the practice targeted for purchase. Potential practice owners can start to build these pieces of their resumes while still in veterinary school.

The credit score is driven by several key items. The one that everyone is aware of is the history of payments on personal obligations. Any missed payments will reduce a score and decrease loan options. One missed payment will not restrict a veterinarian from purchasing a practice, but a history of missed payments will result in financing challenges. A lender also will review overall personal obligations. The higher your monthly obligations, the more salary you will need to draw from the practice. In general, student loans will not restrict practice ownership; as with well-managed installment accounts, these are important to building strong credit.

The opposite side of the credit report is revolving debt, such as credit cards. We have seen scenarios where borrowers have not missed any payments, but have large amounts of revolving debt or have utilized revolving limits to their maximum. These factors will result in a lower credit score.

Most lenders use a formula—often a 50 percent debt-to-income ratio—to determine your personal salary requirements. This ratio means that if you have \$3,000 a month in obligations, you will need \$6,000 in salary to cover these obligations, or an annual salary of \$72,000. If personal monthly obligations increase to \$6,000 a month, an annual salary of \$144,000 is required to maintain the 50 percent debt-to-income ratio. A lower personal salary requirement will allow more opportunities to purchase a practice.

### PERSONAL LIQUIDITY

The lender and borrower are entering into a partnership. The bank is providing the financing and the veterinarian is going to be the onsite

management. Most lenders like to see the borrower have a financial interest in the business partnership. This is generally known as equity, which comes into the transaction via the borrowers' personal liquidity. In general, the veterinary industry has very low equity or personal liquidity requirements—often less than 5 percent of the total project. As the borrower equity requirement gets lower, it should be offset by a seller held-back note. In this situation, the seller will be a creditor on the transaction and will have a security interest in the assets being financed.

If you want to be a practice owner, it is always best to build a cash reserve. This may mean that if you have a lower interest rate on your student debt, don't retire the obligations early. Generally, lenders are not able to recognize the early debt retirement as equity, even though there is a great investment and value in your professional degree.

### COLLATERAL

Veterinary niche lenders understand that the only collateral available for the practice's asset and real estate purchase may be the real estate, or you may be purchasing the practice and have no real estate to pledge as collateral. Banks will review personal financial statements for additional collateral, but that is certainly not a requirement to secure financing. Banks have general recovery rates on different assets that they will receive should the loan default. When these rates are applied to collateral on veterinary loans, a shortfall typically occurs. However, this has not been a restriction for veterinarians in securing financing. Niche lenders understand your business and understand the value in your degree as a doctor of veterinary medicine.

### BUSINESS CASH FLOW

A business' cash flow is critical for both the bank and the purchasing veterinarian to understand. The cash flow drives the debt coverage ratio. This is the ratio of cash you have available to service the debt obligations once you have subtracted your required officer compensation. In calculating cash flow, you are determining the cash available to you, as an owner, after you have paid all your salaries, operating costs and fixed costs. The cash flow number generally includes the following adjustments and add backs to the net income on the tax return:

- Depreciation and amortization.
- Rent. (If the building will be owned by the borrower, you will want to adjust for taxes and insurance.)
- Interest. (Interest will be recognized in payment and would be double-counted.)

You also will add back the officer compensation and then make a reduction to cash flow for the actual salary the owning DVM will require. This will

## Lenders take a hard look at personal credit scores and debts, a business' cash flow and the asking price.

give you the cash to service the proposed annual debt obligation. If you divide the cash flow number by the annual debt service obligation, you will have computed the debt coverage ratio. Typically, lenders are looking to see a number of 1.25 or greater. This can be deceiving, though, and needs to be reviewed. A practice with a lower annual debt service obligation can meet the debt coverage requirement. However, it may not truly have sufficient excess cash available to provide an ample safety net for the owner. For owners, it is imperative to understand the cushion you have available. It also is important to understand how the current owner is accomplishing this number, as this is what drives the price you are paying for the practice. It will be important that, as an owner, you feel comfortable in being able to replicate this type of performance.

### PRACTICE VALUATIONS

Lenders are not licensed appraisers, nor do they provide you with a valuation of the real estate or practice you are purchasing. However, the purchase price of these assets is very important to lenders, as they want to review the overall deal to ensure that the practice can support the proposed obligations. Each lender has specific criteria he is comfortable lending against. Often, a lender will provide financing up to a certain amount of the gross revenues or will lend based solely upon the debt coverage ratio. The main driver of value for the veterinary practice's assets is cash flow; therefore, as a borrower, you need to understand how the historical cash flow is being accomplished. If you are comfortable in how the cash flow is being attained, the next step is to find a lender that will work with you.

Remember that many different avenues are available to finance your practice ownership dream. With a strong understanding of the key factors lenders consider, you can pick the loan product that will be the best tool to help you accomplish your goals.

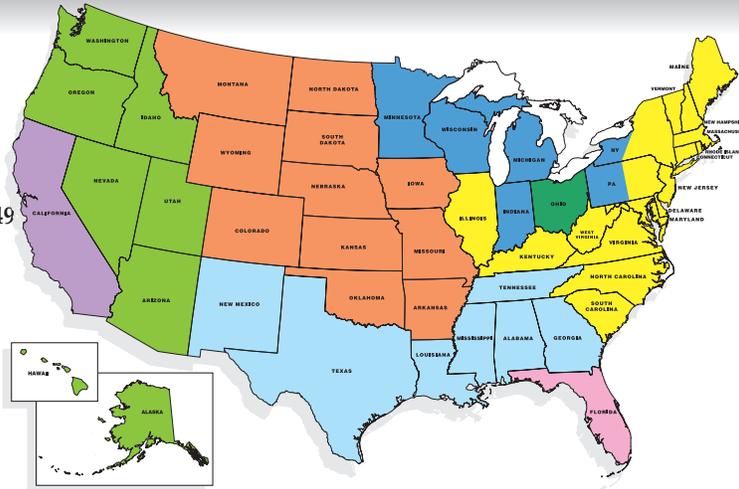


Vince Dailey is a Senior Loan Officer based out of Live Oak Bank's Atlanta office.

# Practice Listings

TotalPracticeSolutionsGroup.com

- Scott Daniels - 877.778.2020
- Karl Salzsieder - 360.577.8115
- David Davenport - 816.331.9449
- Len Jones & Rebecca Ramsey  
877.711.8774 or 334.703.5837



- Kurt Liljeberg - 800.380.6872
- Kurt Liljeberg - 800.380.6872  
George Sikora - 419.945.2408  
John Bryk - 419.945.2408  
Bill Crank - 419.945.2408
- George Sikora - 419.945.2408  
John Bryk - 419.945.2408  
Bill Crank - 419.945.2408
- Len Jones - 334.727.2067  
Richard Alker - 850.814.9962

## Dr. Kurt Liljeberg 800.380.6872 - kurt@tpsgsales.com MN, WI, MI, IN, OH, NY, PA

- WI - Wausau area - SA Px gross \$950K. Excellent staff and DVM's. Updated facility.
- WI - far north Mx px gross \$850K. Near Lake Superior. Real estate price \$500,000. Selling practice for only \$300K!!! This is a great deal.
- WI - Wausau area - SA gross over \$950K. Well equipped, nice free standing building.
- MI - **Under Contract** - SA gross \$615K in the U.P.
- IN - Indy/Ft. Wayne area - Mx practice Gross \$600K. Very nice! Px and RE only \$640K.
- IN - Indianapolis - SA Px gross \$550K. Very nice!! Px and RE is \$725K. Very clean.
- IN - Southwest of Ft. Wayne - SA gross \$426K. Px and RE price \$450K.
- IN - Lafayette area SA practice - Gross \$400K. Prx price \$325K. Excellent deal!
- OH - West Cleveland suburbs - Gross \$720K. Very desirable location! Nice RE.

## Dr. Richard Alker 850.814.9962 - richard@tpsgsales.com FL

- North Central FL - 3 Dr. \$2mm gross ~6800sq. ft. lease space. Turn-key w/ great staff and well equipped. Lots of interest. Owner will stay on staff.
- **New - North FL** - Quaint small town, Solo Dr. well established SA, 2012 gross \$730k, 2500 sq.ft. office, well equipped, experienced staff. Prx & R/E.
- **New - Treasure Coast** - Solo Dr. SA prx, very desirable location.
- **SOLD - Eastern Panhandle** - AAHA 1 Dr., well established, Prx & R/E.
- **New - Ft. Lauderdale** - Lease space w/ equip. Needs a Doctor. 1st 3 mo. rent free.
- **Coastal Panhandle** - Established Prx w/ Satellite 2012 gross \$940K. lots of interest
- **New - Pompano Bch** - Solo Dr. 2012 gross \$700K, great location,, turn-key. Owner's - we have buyers calling daily. Call me for a Confidential Consultation.

## Dr. Len Jones & Rebecca Ramsey TX, NM, LA, MS, AL, TN, GA, FL 877.711.TPSG or 334.703.5837 Rebecca or len@tpsgsales.com

- GA Athens Area **New!** - Perfect prx gross approx \$700K. Well managed & profitable. Prx RE
- TX **New!** NE of Dallas - Grossing \$640K, RE offered at \$300K. Call today for details
- AL **New!** **UNDER NEGOTIATIONS** - Gross 2.2M! Excellent area & cash flow. Prx & RE
- AL East Area **UNDER NEGOTIATIONS** - Gross \$650K+, excellent schools, Prx & RE!
- TX **New!** NE of Dallas - SA prx, ready for new owner, digital xray, all the bells & whistles!
- AL N Bham - Aprox \$300K Cash Flow! Gross \$750K+ 4250SF, ready for you!
- TX Abilene - Gross \$850K+ Booming community 3000SF facility, Mon-Fri Prx & RE \$875K
- TX N East **UNDER NEGOTIATIONS** - Prx & prime commercial RE only \$650K
- NM **New!** - Gross \$830K+ 3900SF facility, nicely equipped, great clientele. Prx & RE
- AL **New!** NW of Birmingham - Call Len for further practice details on this opportunity.

## Scott Daniels 877.778.2020 - scott@tpsgsales.com CA

- IN ESCROW CA - Northern CA - SA. Gross \$1.1 million, RE also available. Office boasts strong profit and shows a real pride of ownership.
- **New!** San Bernardino CA, Near Los Angeles - Gross over \$700 SA. Spacious office, Lots of room for growth. Excellent street visibility
- **Coming Soon** Near Los Angeles - \$900K gross, well maintained.

**Seller or Buyer Representation  
Partnership Assistance  
Appraisals  
Call us for a Free Confidential Market Evaluation.**

## Dr. Sikora - george@tpsgsales.com / Dr. Bryk - john@tpsgsales.com Dr. Crank - bill@tpsgsales.com 419.945.2408

DC, IL, KY, MD, OH, NC, SC, VA, WV / CT, MA, ME, NH, RI, VT, DE, NJ, NY, PA

- Peoria, IL - In shopping center, build-out is new & pristine. Buyer will make over 125K after debt service. Seller motivated.
- Central, IL - EMER Practice in leased facility. Will net buyer 125-150K after debt service. Established 10 yrs. and profitable.
- NC Greensboro - Durham corridor grossing 800K in pristine leased facility. Very lucrative practice. High cash flowing practice.
- **New Listing - low country SC** - Established practice, leased facility, Grossing <300K with large client base. Seller motivated.
- VA - Southeast Virginia - General plus Holistic Grossing 1M with Pristine R. E. Net 200K after debt service. Owner will aid transition.
- VA - Hampton area - Grossing 375K, owner motivated.
- WV - Practice Grossing 750K with 3,500 sq. ft. RE. Buyer makes 150K plus after debt service. Very profitable.
- **Just Listed** - PA Pittsburg area. Long established 2doctor practice, grossing 900K. This practice is very profitable.
- **Just Listed** - RI - Mobile/Stationary Practice, grossing 250K-500K. Owner motivated 125K.
- **Under Contract** - NY New York City - small animal Grossing 500k plus & growing.
- **New Listing** - Long Island NY - EMER Clinic equipped & long established - Grossing 1M.
- **New Listing** - Long Island NY - 24 hr EMER Hospital, well equipped & long established. Very profitable, Grossing 2.5M.

## Dr. Karl Salzsieder 360.577.8115 - karl@tpsgsales.com AK, AZ, HI, ID, NV, OR, UT, WA

- NW WA **NEW** - 1 DVM start up, only \$60K. \$150 K Rev.
- N. of Seattle **Soon** - Awesome 3581 ft2 building, 1 DVM Practice w/great potential to grow
- NW WA on the Peninsula - 1+DVM SA high quality medicine. \$700,000 gross revenue yr.
- OR - EQ Surg Spec LG DBL SX, EQ Hosp - Prev. ops > 1 million - Rev.
- OR near PDX - High Net, SA, high tech, \$500,000 gross rev. yr. 1 DVM
- ID - SA growing > 25%/yr, 3,000 SF RE. \$300K to \$400K gross - Recreation Area
- AZ **New listing** - high cash flow 1 DVM, West Valley. Over \$600K Rev.
- AZ - SA Practice and over 3,000 SF RE, East Valley
- NW AZ - Fast growing SA 5,000 SF, Practice and RE. \$500,000 + yr. gross revenue JLH Real Estate Services, LLC, AZ licensed RE Broker Ph: 480-607-2949

## Dr. Dave Davenport 816.331.9449 - dave@tpsgsales.com MT, WY, CO, ND, SD, NE, KS, OK, IA, MO, AR

- Johnson Co. KS - Exclusive SA Practice in free standing building. Grossing over \$1.7 M
- Kansas City Northland - SA Practice located in shopping center. Gross over \$550K.
- Norman, OK - Multi Dr. Practice. Grossing over \$850K incl. Bldg & RE
- Tahlequah, OK - SA Practice, 3 yr. old free standing bldg. \$400K Gross
- Vermillion, SD - 100% SA in college town, with RE. Price Reduced.
- North Central Arkansas - Resort area, SA practice. \$600K Gross
- Central Arkansas - SA Practice. Free standing Bldg w/ RE Gross \$800K
- Southwest AR - SA Practice, Free standing Bldg w/ RE Gross \$400K
- South Central MO - SA Practice. Free standing Bldg w/ RE Gross \$800K
- Alamogordo, NM - 90% SA Practice w/ RE, Free standing bldg. \$810 K Gross

Visit [www.TotalPracticeSolutionsGroup.com](http://www.TotalPracticeSolutionsGroup.com) to find more information on the practices listed above and additional services.