

Practice Tips

Signs tell the world who you are.

A sign is a huge public relations tool that tells the public that you exist and who you are. It is usually the very first exposure a new client has to your practice and you have their attention for 3-5 seconds to make your statement. Make it count! If a sign is old, faded, has burnt out light bulbs, needs repainting, or simply looks shopworn, potential clients will naturally assume you do not care. A new, bright sign almost always results in new clients who have driven by the clinic daily but didn't know it existed.

Handwritten sympathy cards.

Most clinics use some form of sympathy cards when their patients die. However, a note, handwritten by the attending veterinarian, has infinitely more meaning than a card with only a signature. If possible, make every effort to send a personal note every time a pet dies. Clients will remember these notes for years into the future, long after they no longer have pets. Some clinics even send a small potted plant or cut flowers every time. Whatever you do, nothing will be more appreciated.

What others say...

This letter is in recognition of all of the hard work done by the staff at Simmons & Associates, Northeast in completing the recent sale of my practice. I can wholeheartedly recommend you to both buyers and sellers. The process was as user-friendly as any such major financial transaction could possibly be.

Sandra Kudrak, DVM, DABVP

Dr. Farquer was so diligent on the Environmental Protection Association issue, which is why hiring Simmons & Associates is so beneficial. When would an owner have the time and experience to investigate all of this? Thanks for going above and beyond.

M. Kahan, DVM

Thanks to all of you, we sold the business. I am very happy with your service and highly recommend you. Thank you again. You are greatly appreciated.

Beverly Townsend

Thank you both for all your help in bringing the sale to a successful conclusion. We appreciate all the professional help you gave us—thanks especially for the "hand-holding" and advice. You helped make it so much easier for us.

D. & S. Mahrenholz

Dr. Gerber had a grasp of all of the issues that were important to both buyer and seller.

Wendy Welsh, DVM

Let's Talk! SEMINARS & PRESENTATIONS BY SIMMONS & ASSOCIATES

Western Veterinary Conference
February 15, 2004; Las Vegas, NV
Drs. Dave Gerber and David King presented "Exit Strategies: Part I & Part II"

Winter Colloquy: A Purdue University School of Veterinary Medicine Sponsored Symposium
February 21-23, 2004; Key West, FL

Topics presented by Dr. Dick Goebel included: "Merger: More Assurance Than Centrum Silver"; "Pet Owner Compliance: What is Your Responsibility and Opportunity"; "Practice Valuation and Factors Affecting Value"; and "Practice at Risk: Is There a Buyer for It?"

Midwest Veterinary Conference
February 27-29, 2004; Columbus, OH
David McCormick and Dr. Dick Goebel presented a Practice Success Seminar on the topic: "Optimizing Practice Value"

TVMA Winter Conference
February 28, 2004; College Station, TX
Drs. David King and Dave Gerber presented "Exit Strategies: Planning to Succeed" and "Entrance Strategies: Pathways to Practice Ownership"

Veterinary Management Institute Jointly sponsored by American Animal Hospital Association and Purdue University School of Veterinary Medicine
February 29, 2004; West Lafayette, IN
Dr. Dick Goebel presented: "Veterinary Practice Marketing: Dynamics, Valuation and Facilitating the Sale"

Michigan VMA
May 13, 2004; Mishawaka, IN
Dr. Dick Goebel presented the following topics: "Veterinary Practice Marketing: Dynamics, Valuation & Value Enhancement"; "Mergers & Acquisitions: A Strategy for Exit or Growth"; and "Management Strategies in Uncertain Times"

Southeastern Veterinary Conference
June 16-20, 2004; Myrtle Beach, SC

Please join Dr. Doyle Watson for a casual and informative session that will cover: (1) "What to Expect When Selling Your Practice," and (2) "Practice Buy-in: The Good, the Bad, and the Ugly."
Time and room TBA.

Simmons & Associates representative Lisa Woodman (Director of Sales & Marketing,

Southeast Office) will be on hand in the exhibit hall to answer questions related to practice sales, appraisals, and exit strategies. Lisa will also be speaking from 3:00-6:00 p.m. on Wednesday. Topics to be covered include: (1) "Anatomy of a Practice Evaluation" (2) "What to Expect When Buying Your Practice" and (3) "How to Value Taxes in Your Practice Sale with a 1031 Exchange" with guest, Dr. Gary Ackerman.
See you there!

AVMA Annual Convention
July 24-28, 2004; Philadelphia, PA
Dr. Larry McCormick will be speaking on the following topics, Saturday, July 24, 2004: "Is My Practice Worth One Year's Gross?" (1:00-2:30 p.m.) and "What is an Exit Strategy and Why Do I Need One?" (3:00-4:30 p.m.)

Idaho VMA
August 8, 2004; Boise, ID
Drs. Dave Gerber and David King will attempt to unravel some of the most common mysteries and misunderstandings encountered in practice sales and purchases, presented so that even they can understand in a presentation titled: "David's Top 10 (or so) FAQs of Buying or Selling a Practice."

Veterinary Information Network (VIN) Rounds
August 15, 2004;
Email exchange via Internet
Dr. Dick Goebel will be speaking on the topic: "Mergers: An Option for the Practice at Risk"

The Southern Veterinary Conference Formerly the Jefferson County Medical Association
August 20-22, 2004;
Birmingham, AL

This meeting has a reputation for an excellent continuing education program. Simmons & Associates representative Lisa Woodman (Director of Sales & Marketing, Southeast office) will be on hand in the exhibit hall to answer questions related to practice sales, appraisals, and exit strategies. Lisa will also be hosting a casual and informative session on Saturday, covering topics such as "What to Expect When Buying or Selling a Practice" and an inside look into a practice valuation. Private consultations are available by appointment.

Wild West Veterinary Conference
October 6-10, 2004; Reno, NV
Drs. Dave Gerber and Byron Farquer will be presenting for a full day. The topics are: "Entrance Strategies"; "Buying/Selling a Practice: The How-To's"; and "You're a Great doctor. So What?"



Simmons & Associates

Times

Advice and Opportunities from the Nation's Premier Broker of Veterinary Practices / SPRING 2004

Question & Answer

WHAT DETERMINES PRACTICE VALUE?

There are many factors, both financial and intrinsic, that contribute to practice value. Unfortunately, there are still a fair number of practitioners and advisors who use some percentage of gross income to determine practice value.

In truth, it is the profit after all expenses, NOT the gross income, which forms the basis of value. These earnings represent revenues remaining after paying all expenses of the practice and, after compensating the owners for their work as veterinarians. The remaining earnings are discretionary and may be used as the owners choose. The more discretionary earnings a practice generates, the greater will be its value.

Profitability, then, is key in establishing value and the most important factor to be analyzed. Without enough income to pay all the bills, including practice debt, and to provide a buyer with a reasonable salary, there is little or no value beyond the real estate, inventory, and equipment.

At the same time, there are many factors that directly influence value, not all of them being financial. Location is probably one of the most important, with practice growth, transferability of goodwill, facility appearance, practice stability, competition, value of equipment, quality of staff, and owner's transition period, taking up the lion's share of considerations.

Earnings and profitability are vital in establishing a value, but it would be a mistake to ignore the intrinsic factors that are intimately related to an individual practice. Therefore, when it comes to valuing a practice, find a qualified veterinary appraiser and have the value assessed on sound methodology, not some mythological approach.

Should the Practice and Real Estate be Sold Together?

This question commonly arises in practice sales with coincidental practice real estate ownership. Many owners do not think they should or can sell the real estate with the practice for several reasons.

The Theory: I Want the Rental Income
The Reality: Due to the nature of most veterinary hospitals being special use buildings, the number of potential tenants is very limited. It would make a lot more sense to own rental property with much wider appeal, such as an office building, apartments or even a mini-mall.

The Theory: My Real Estate Will Increase In Value

The Reality: As to future value, because it is usually limited use, a veterinary hospital probably has less upside potential than other, more "generic" commercial properties. If the tenant veterinarian chooses to move out and build his or her own hospital nearby, the owner is likely faced with a major remodel for a new tenant. It is unlikely that another veterinarian would rent this space, knowing there is a brand new hospital just down the street. In short, the very best buyer for a veterinary hospital is the veterinarian who is buying the practice.

The Theory: I Can Defer Taxes by Not Selling the Real Estate

The Reality: That is true. However, the gain on the real estate sale is taxed as a capital gain, which is usually at 15%, whereas rent is taxed at the much higher ordinary income rate. Another excellent strategy is to do a 1031 exchange in which the hospital is "traded" for another type of investment property, thus deferring ALL of the

taxes. In addition to the tax advantage, it would allow the seller to move those investment dollars into a much more desirable and rentable property. Finally, if it is not possible or desirable to do a 1031, the seller can finance the sale personally and spread the capital gain tax on the principal as it is received over the term of the loan.

The Theory: For Security, I Should Sell the Practice First and Then the Real Estate

The Reality: If that is a concern, it is common for buyers to be able, using commercial lenders, to "cash out" the purchase of the practice all at once. That would accomplish the above goal and allow the seller to immediately sell the real estate on a promissory note. It also should be noted that veterinarians are ranked among the very best professions for having low default rates. In fact, in 27 years, Simmons & Associates is aware of only three practices that we have sold going into foreclosure.

The Theory: Most Buyers Can't Afford BOTH Practice And Real Estate

The Reality: Probably the greatest fallacy is that the buyer "can't afford to buy it all now". There are many commercial lenders who are very aggressive in our profession, so that loan funds are readily available for buyers to purchase the real estate along with the practice, and usually with small down payments. Moreover, with the low interest rates and favorable terms currently available, the mortgage payment on the real estate is typically 10-20% LESS than a rent payment would be. So, in reality, it is less costly for the buyer to purchase the entire package (practice and real estate) at the same time.

In Series...

Practice Appraisals: Profitability!

As we discussed last time, profitability is one of the key drivers of practice value and it is what makes the most difference between two practices with the same revenues. So what is PROFIT?

Profit refers to the dollars that the practice generates after paying all of the legitimate operating expenses of the practice. This includes a fair compensation the owner's veterinary work and paying a fair market rent for the real estate, regardless of who owns it. What remains after all of the operating expenses is the profit, also known as the return your investment in the practice. It is discretionary in nature; you can use it as you choose whether for yourself or to reinvest in the practice, to hire new staff, to purchase new equipment, to send the staff for CE, etc.

When it is time to appraise a practice, the financial statements rarely reflect the true practice operation because they are based on the practice management and accounting policies. As a result, they usually must be adjusted to assess the true flow of revenues and expenses and the operational profitability. This adjustment or normalization process is the first step in an appraisal.

In a nutshell, the more profitable the practice the greater the practice value. Conversely, there are some practices that while they provide the owners with a good job and a comfortable living, they generate little true profitability beyond the owner's salary. In as much as these practices do not produce a fair and expected return on investment, they are of less value.

There is a lot of truth to the old adage that claims the first three years and the last three of owning a successful practice requires the greatest management effort by the owner. The last three years is when owners should work to improve the practice and its profitability and thereby maximize its value. In our next issue we will look at increasing profitability... and practice value.

The Simmons & Associates HANDSHAKE



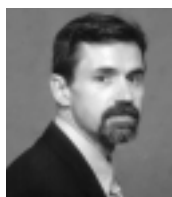
Dave Gerber

Dave Gerber, DVM, opened Simmons & Associates Northwest, in 1993. In addition, he remains active in his state and local VMAs having served as Idaho VMA president in 1998 and currently as alternate AVMA delegate and PAC chairman. He sits on the Practice Valuation Committee for the Association of Veterinary Practice Management Consultants and Advisors and on the Board of Directors for a new emergency clinic in his home town of Coeur d'Alene, Idaho.



Dave Gerber nets a nice Harriman Ranch rainbow trout!

Dave and his wife, Suzy, love to travel to Spanish-speaking countries, backpack, and enjoy their "getaway" on the Clark Fork River in Montana. As you might guess, Dave's main love is fly-fishing. Dave has two daughters, one living in Venezuela and the other finishing her graduate work in geology at University of Oregon.



Jim Stephenson

Jim Stephenson, DVM, has been the owner of the Northeastern regional office since 1993. Jim brings the high degree of competency and ethics to Veterinary Practice Sales industry as is expected from the veterinary profession. Having founded two veterinary practices, Jim brings a

unique background of management expertise and insight into the practice sale and transition.

While not on the phone or traveling to facilitate practice sales, Jim spends his time as a full-time father to five children. He and his



The Stephenson family on their sailboat

family have sailed the world together but more recently have rekindled their interests in the solitude and challenge of backpacking. Currently residing in southern Maine, Jim works and consults in all of New England and New York.

Jackie Bragan became the Northeast's office administration assistant in 2001. She is responsible for all general personal



Jackie Bragan in the cab of an 18-wheeler

assistant duties, including managing and promoting listings in the northeast territory. In her spare time, she has a part-time knitting/design business. Having grown up on the ocean, she enjoys kayaking and especially sailing on the schooner *Timberwind*. As an experienced OTR driver of an 18-wheeler, she still enjoys being around the rigs and occasionally driving dump trucks for a couple of local companies.

Featured Practices for Sale

SELECTED LISTINGS FROM OUR CURRENT DATABASE OF AVAILABLE PRACTICES

A SOUTHEAST

Doyle Watson, DVM
800-333-1984

SOUTH CAROLINA

Charming South Carolina - Welcome home! Located in the Columbia area, this practice is ready for a new owner! There is a large commercial building available with purchase of practice. Seller is motivated. Call for details! (SC10A)

NORTH CAROLINA

Incredible opportunity for the right person! Serenity and peace of mind in Eastern North Carolina. Step right into a new way of life. Rapidly growing mixed practice (85% SA). Equine doctor will stay on! This practice was up 10% in 2002 and 14% in 2003! New owner can expect an income in the \$175K-\$200K range after debt service. Large practice, barns, numerous paddocks, 2 apartments and a stately home included! The grounds are fit for a king with stone and brick fencing and walkways, patios, gazebos and fountains. (NC6A)

FLORIDA

Specialty practice for board certified specialist. Located in Florida, this practice is the epitome of modernization. Incredible facility with lots of tile and glass, plenty of storage, new equipment, large aquariums, welcoming reception, spacious work areas and a crisp, modern feel. Substantial after debt income to new owner! (FL7B)

B SOUTH CENTRAL

David King, DVM 800-982-8033

TEXAS

Ft Worth SA practice with real estate located in southern Tarrant County grossing over \$370K. Price with RE \$635K. (TX-123PC)

TEXAS

SA practice north of Houston grossing over \$750K with after debt income in the six-figures! Motivated Seller and willing to consider any reasonable offer! Appraised value with RE \$1.0M. (TX-81MC)

C SOUTHWEST

Byron Farquer, DVM
Dardalee Bussell, DVM 877-315-1954

ARIZONA

Northwest AZ-1 DVM SA in really nice free-standing facility. 2003 Gross > \$550K, Practice Price = \$395K, RE = \$400K (AZ-NW1)

NEVADA

Southern NV-2 DVM 3,000 sq. ft. facility with living quarters. 2003 gross > \$524K. Practice Price = \$360K, Real Estate = \$390K. (NV-2)

NEW MEXICO

Northern NM/Taos area-2 DVM SA Nice 2,500 sq. ft. facility. 2002 Gross > \$720K. Practice Price = \$552K, Real Estate = \$478K. (NM-3)

D PACIFIC

Byron Farquer, DVM
Dardalee Bussell, DVM 877-315-1954

COASTAL SAN LUIS OBISPO AREA

Charming seaside village. 1 DVM 100% SA practice. 2003 gross > \$450K. Practice Price = \$375K (COA4)

SAN FRANCISCO AREA

2 DVM 100% SA practice. 2003 projected gross is \$1.23M. Great location. Practice price = \$945K. (BA2)

SOUTHERN CA

Equine Practice. 2003 Gross > \$955K, focus on Repr. 10 acre facility Practice Price = \$550K, Real Estate = \$1.0M (SC45)

E NORTHWEST

David Gerber, DVM 800-846-0062

OREGON

NEW LISTING in Hood River. SA practice in the heart of the Columbia Gorge. World class windsurfing, kayaking, fly fishing, and within an hour of Portland. Relaxed schedule provides ample time to enjoy the lifestyle. Efficient, leasehold space. Grossing \$224K. Priced to sell at only \$145K. (LOR35)

WASHINGTON

\$134K income to buyer. SA in sunny, southeastern city. Freestanding building, includes 300ma Xray, processor, (2) pulse ox, electrosurgical unit, computer. 2003 gross, \$485K. Practice price \$405K, RE price \$125K, total price \$530K. (LWA28)

OREGON

SA practice in beautiful southcentral Oregon close to Roseburg. Includes free-standing building with apartment. Well-equipped with Luxor CO2 laser surgery unit, IM3 dental machine, xray processor, complete Idexx system, and 3 computers with Inravet software. 2003 gross, \$233K. \$85+K income to buyer. Real estate price, \$150K, practice price, \$125K, total price, \$275K. (LOR33)

F INTERMOUNTAIN

Larry J. Wiseman, DVM
Sue L. Wiseman, DVM 800-923-2224

COLORADO

CO: Denver SA, 3000 SF clinic. Buyer after debt income \$88K. Reasonable offers considered. (LCO06)

UTAH

UT: Salt Lake Valley, 3,838 SF hospital on 1 acre. Buyer after debt income > \$80K. Practice, \$170K, RE, \$330K, total, \$500K. (LUTO4)

WYOMING

WY: Casper 2,200 SF hospital. Buyer after debt income \$70K. Practice, \$150K, RE, \$250K, total, \$400K. (LWY03)

G MIDWEST

Ken Ehlen, DVM;
877-322-6465

WISCONSIN

Profits plus! Southern Wisconsin small animal

practice. Well-established yet growing clientele, wonderful practice and real estate package with great cash flow. Can be purchased with zero down. Facility is freestanding, well equipped with excellent exposure. Don't miss this one! (MW142)

H GREAT LAKES

Dick Goebel, DVM, Michele Goebel, MSM, Bob Ferguson, DVM
888-746-3717

INDIANA

SA practice in NW Indiana suburban collar area. Established reputation, attractive facility. Emergency and specialty centers available. Grossed \$534K in 2003. Price of \$830K includes valuable real estate. After debt income of \$140K. Must see! (IN1014A)

MICHIGAN

SA practice in suburban Flint area. Compliant clients, trained staff, spacious floor plan, growing! 2003 gross was \$428K. Price of \$325K is for practice only. After debt income of \$80K to new owner. (MI024A)

OHIO

Fabulous value! Motivated Seller. The only practice serving 40,000 residents. Excellent floor plan. Emergency service and specialists nearby. Grossing \$400K. Appraised value with RE \$580K, but priced at \$495K! After debt income \$123K. (OH08A)

I MID-ATLANTIC

Larry McCormick, DVM, MBA, CBA
David McCormick, MS
888-881-7084

VIRGINIA

New Listing! Established mobile practice in the Washington DC area. Solid client base that expects and values quality home care. Sharp 26 foot custom heavy duty vehicle included. Very profitable! (VA8)

WEST VIRGINIA

Well established, growing SA practice in northern WV-Go Mountaineers! This is a top-shelf, turnkey operation. 4 acres with room to expand and a residence or rental home onsite. Owner take home of \$220,000! (WV6)

NEW JERSEY

Established 2 doctor SA practice, 20 minutes from Camden/Philadelphia. Free standing building on busy street with plenty of parking - plus room to expand. (NJ21)

NEW JERSEY

Sharp, state of the art, 1.5 doctor, SA practice. Revenues over 660k and growing fast. AAHA Certified. An excellent turnkey practice - and close to the shore! Practice \$600K (NJ12)

O NORTHEAST

Jim Stephenson, DVM 800-474-4775

MASSACHUSETTS

North Shore. Well-established 1 DVM SA. Grossing \$490K+. Practice & Real Estate only \$775K. (MA-107)

MASSACHUSETTS

Great opportunity to purchase a Feline only practice grossing >\$575K in the Boston area. Practice only \$470K. (MA-109)

NEW YORK

Onondaga County. Well-established 1 DVM SA. Grossing \$369,988. Practice & Real Estate \$332K. (NY-140)

For a complete listing of available practices nationwide visit: www.simmons2000.com