Lease, Leases, Everywhere Leases

By Kirsten Poppen, JD, CVA
with Simmons & Associates Midwest

Why is my practice not making any money?

Let's examine your expenses. Many of you have heard of No-Lo Practices, a term that has hit front and center in the veterinary consultant world. No-Lo: Practices with No to Low Value. No-Lo Practices aren't necessarily a bad investment, by the way, it's more a matter of understanding the why behind it for the current owner or new buyer to implement changes, and notably, paying an appropriate practice price supported by the cash flow. The focus here is on what can contribute to No-Los: Practices with high equipment leases and debts.

But isn't new equipment important?

Well sure, in the right situation. And I know many of us like new things. But we really must move to a deeper level of inquiry first. Does the new equipment make sense and is this the right time:
-   Is it expected to be income generating?
-   If you're replacing an item, will the new piece generate more or different income? Why do you think so?
-   Can the practice cash flow support it?
-   How close are you to selling your practice? (It can be difficult to recoup your money on new equipment right before a sale.)
-   How is your bottom line personal income? Already in a pinch?

Won't the new equipment generate more income to pay for the extra expense?

This is a tough one. Often we see a knee-jerk "yes" response. And equipment suppliers often tout increased efficiency, reduced staff time, and increased procedures. *Maybe.* See what truly fits for the style and stage of your practice. And, if the answer is yes, *how long before we see that added income to offset the expense*? Be sure that timeframe fits for your situation.

But isn't the lease essentially free?

Let's take the oft-seen lab lease. Free lab equipment if you buy so many rotors, supplies, or meet a quota for sending work to the outside lab. Sounds great. And lots of times we see this work well. I've also seen refrigerators full of expiring rotors and practices that haven't reviewed whether they are appropriately charging for (in-house and sent out) lab work.

Why can't I just have the buyer take over the lease payments?

A buyer will be looking for two key things in evaluating your practice. 1. Can I fairly pay myself for my DVM work? 2. Can I make the debt service on the practice loan? More specifically, after I pay all practice expenses—including fair DVM owner compensation—how much money is there to pay the practice loan?

So the short answer is yes, a buyer can take over your equipment lease payments. However, there's one collective pot of money. If a buyer takes over your $1,200/month lease payment, there's $14,400 less per year on the bottom line for cash flow. That's $14,400 less on the bottom line to service the practice debt service—and most importantly, to qualify the practice loan with a lender. Is that the best approach for a seller to realize the most out of a practice sale? (Often times a seller will fair better in paying the equipment lease off at closing because having that additional lease money added to cash flow can bring a higher practice price.) Evaluate your specifics to see what fits best.

What's My Take-Away?

Leases or debts on new equipment might be the right choice for you and your practice. The key however is to step back and consider that decision big picture—there is one pot of money to pay both practice expenses and to pay you as the owner (or the future owner). What's the cash flow impact of this new expense going to be? What does this mean to my pocket as the current owner? What does this mean to a prospective buyer (who is also going to have to pay for the practice loan)? And does this cash flow impact make sense with your timing and personal income needs.

You know your personal and practice goals best. Consider all the pieces working together. Review the give and take that added leases or debts might bring to your current—and future—financial picture. Questions? We can help you get there.