

Simmons Education Fund 2021 National Case Study

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KOTSCH ANIMAL HOSPITAL

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Steps to Acquire Opportunity Animal Hospital



KOTSCH ANIMAL HOSPITAL

Research/Planning

Demographic Research

To responsibly assess Opportunity Animal Hospital (OAH) in preparation for purchase, I need to have a clear understanding of trends in the industry of veterinary medicine on both a large and small scale. To better understand trends in veterinary medicine across the United States, I keep up to date with articles from Today's Veterinary Practice, Veterinary Practice News, dvm360, the American Veterinary Medical Association, and the American Animal Hospital Association.

To get a better grasp of trends in the area of the practice for sale, I would pay for an ESRI "Pets and Products Market Potential". These reports cost \$50 and provide an array of statistics about a given geographic area based on consumer expenditure surveys from the Bureau of Labor Statistics. Statistics such as number of pets per household, average household spending on pets, and percentage of the population with pet insurance would be useful to analyze not only as consideration when making an offer for the practice but also for selecting a target market within the geographic vicinity and developing the business accordingly. Department of Transportation (DOT) data can be obtained to understand traffic around the area of the practice and advertise accordingly.

Financial Analysis

Once I have an understanding of the practice and the climate it is operating in, I will analyze the financial information that has been provided. This data will not only help me decide on an offer price for the practice but will help me identify areas of growth, which is important to consider for renovations, payroll, and advertising decisions moving forward.

Revenue by Category

It is critical to understand the practice's revenue streams in order to identify current strengths and areas for growth. This can be accomplished by comparing Opportunity Animal Hospital's financial data to benchmark data, as well as by calculating net revenue for specific revenue categories. I will utilize benchmarking tools such as Simmons Key Performance Indicators, AAHA Benchmarks, and Well-Managed Practice Benchmarks. Ideally, I will also enlist the help of specialists for guidance, such as practice consultants and sales/appraisal experts. Please refer to the "Revenue Breakdown" (Figure 1) for calculations.

Based on the data, I am concerned with the profitability of boarding at this practice. Boarding accounts for 10% of the practice's revenue, or approximately \$49,108 in 2020. However, this practice hires five full time kennel assistants, which are assumed to be directly and exclusively related to the boarding revenue stream. The yearly expense of this staff alone is between \$70,124 and \$96,885, which exceeds the revenue generated by boarding (see "Payroll" (Figure 2)). Additionally, there are other expenses related to boarding that cannot be measured from the data provided, but conservative assumptions were made for projections (\$2/day per pet in food expenses and 1% of boarding revenue for expenses

such as cleaning supplies, towels, bedding, etc.). To make boarding profitable, some of the boarding staff would need to be laid off (although it is unclear if less staff would be able to support current boarding volumes), more pets would need to be boarded (not enough information is provided to understand boarding capacity and if this is feasible), or the hospital's boarding services would have to be discontinued altogether.

If I acquire this practice, I will eliminate boarding altogether. Please see "2021 Income Statement Projections" (Figure 3) for financial justification. While not reflected in these projections, discontinuing boarding will also provide space for expansion within the current building to support the future growth of the practice. Possibilities for use of this space include additional exam rooms, a dental procedure suite/additional surgery suite, or another use depending on the future needs of the practice. Additionally, there are non-financial benefits of discontinuing boarding, including decreased noise at the practice and easier maintenance of facilities and grounds.

Another category of concern is Professional Services. This practice's professional services make up 15% of revenues, which is far less than the AAHA Benchmark of 27.5%. Some reasons why professional services might be low include not charging for services performed or a low fee schedule. As the fee schedule for this practice is similar to other hospitals in the area, I suspect that some services are being performed and not billed, and I would investigate this further to determine a solution.

Finally, I identified an area for growth in the Dental Procedures revenue category. Currently, OAH's revenue from dental procedures is 3%, or about \$14,732. Assuming an average dental procedure cost of \$250, this revenue accounts for about 59 dental procedures per year, or 2% of total annual invoices, which in this case is used to approximate number of patients seen at the practice in 2020. According to Simmons Key Performance Indicators, approximately 42% of a practice's patients would benefit from a dental cleaning in a given year [3]. If OAH could increase dental procedure compliance to 20% from 2% currently, the result would be an additional revenue of \$178,418. These calculations can be found in "Revenue Breakdown" (Figure 1).

Cost of Professional Services

According to the Simmons Key Performance Indicators, Cost of Professional Services (COPS) as a percentage of revenues is an important indicator of practice health. The goal for this benchmark should be between 22-25% [3]. In 2020, the Cost of Professional Services at Opportunity Animal Hospital was 28.3%, and in 2019 was 31.7%.

In order to determine which component of COPS may be decreasing the overall profitability of the practice, I matched expense categories with revenue categories when able in order to determine an income/expense (I/E) ratio. Please refer to "Revenue Breakdown" (Figure 1). The I/E ratio in 2020 was 7.1 for the laboratory category and 1.9 for the dietary category. According to Simmons Key Performance Indicators, the target ratio for the laboratory category is 3.5-5.0 (in house and reference lab combined) and 1.5 for the dietary category. OAH is exceeding both of these benchmarks (note: in-house laboratory expenses may have been attributed to an expense category other than laboratory depending on the

accounting methods used, which could effect this ratio). I was unable to obtain I/E ratios for other categories of revenue due to limited detailed revenue information, but I suspect that the Drugs and Medical Supplies category is high, reflecting inventory wastage and inefficient ordering practices.

When I acquire this practice, I will look into slimming the practice's pharmacy offerings to decrease product wastage, and spend time comparing vendors to determine ordering practices moving forward. These changes could serve to lower Cost of Professional Services.

Average Client Transaction and Efficiency

Average Client Transaction (ACT) is an important benchmark value for veterinary practices. For this practice, I calculated an ACT of \$107.65. Additionally, I extrapolated an ACT of \$123.39 for non-boarding transactions. Please see "ACT and Efficiency" (Figure 4) for calculations.

According to Simmons Key Performance Indicators, \$127 is the average ACT of a health practice, with hospitals in the 75th percentile having ACTs of approximately \$150.

The most common reasons for a low ACT include a low fee schedule and low client compliance with recommendations (e.g. yearly dental cleanings, monthly heartworm and flea/tick prevention, yearly bloodwork for geriatric patients, etc.). However, ACT is also affected if a practice has a large number of low-value transactions, such as medication refills, so the workflow and policies of the practice need to be considered before assuming a low fee schedule or low compliance.

In the case of this hospital, low client compliance is suspected to be the cause of low ACT as the practice's fee schedule is comparable to other practices in the area, and client compliance is an area of potential growth for this practice. Compliance not only improves a practice's revenue, but also leads to healthier patients, which is important to me as a veterinarian.

Strategies I would implement to increase compliance would include emphasizing forward scheduling, investing in training for the clinic's assistant and technicians so they are able to educate clients and encourage compliance, and creating a wellness plan that includes preventative pharmaceuticals, biannual physical exams, and a yearly dental cleaning (see business plan for more information).

Projections

Please refer to "2021 Income Statement Projections" (Figure 3) and "ACT and Efficiency Projection" (Figure 4). The main assumptions used in these projections are the elimination of boarding services and increased appointment efficiency through methods such as smart scheduling and increased technician/assistant utilization. The final 2021 projected operating income after accounting for increased depreciation and amortization post-purchase in addition to increased owner compensation reflecting both veterinarian and managerial roles comes to \$53,843, or 10.2% of annual net income. According to Simmons Key Performance Indicators, a financially health practice is defined as 14-18% profitability [3]. Shifting a practice from negative profitability to 14-18% takes time, and while 10.2%

profitability does not meet this benchmark, it is a reasonable goal for the first year. The focus of the second year will be to increase revenues even more through new clients and improved client recommendation compliance.

Valuation Research

It would be prudent to enlist the help of an appraiser familiar with the veterinary industry for guidance on practice valuation, but using the information provided to the best of my ability, I calculated the value of the practice to be approximately \$160,359 (with a range of \$60,690 to \$343,757). To arrive at these numbers, I first adjusted the 2020 Income Statement for non-operating expenses, non-economic expenses, non-recurring expenses, and other expenses affecting the comparability of the income statement, such as the current owner's compensation for veterinary-related work [1]. Please refer to "Adjusted Income Statements" (Figure 5) and "Valuation" (Figure 6). The market method was not calculated as the small size of this practice and lack of data about hospital location were prohibitive. The average of the three calculated methods was \$160,359.

It is important to note that non-numerical considerations go into calculating the value of a practice to an individual. I will start the negotiation with this valuation as an offer, but will be prepared to offer more for the intangible value to me (such as the hospital already practicing the quality of medicine I envision, room for expansion, etc.).

In the negotiation process, I will point out that this size practice would be considered too small for most corporate purchasers. Additionally, the trend of negative growth over the last three years is not consistent with the seller's asking price.

Renovation and Equipment Budget

As the last step of the research phase, I would want to have general idea of what renovations I feel the practice needs in order to continue practicing high quality medicine. Much of the value of OAH is in the hospital's existing clients (goodwill), and an extended closure for renovations might lead to client attrition, so I would ideally design a renovation plan that would be conducted in two phases to allow the hospital to remain open. The overall budget for renovation and new equipment will depend on purchase price negotiations.

The first priority for renovation would be increasing the number of exam rooms in the practice. Although the current exam room number is unknown, it is likely that this practice only has one or two exam rooms as it seems only one doctor works on a given day. To increase efficiency, I will be changing the workflow of this practice to incorporate horizontal scheduling, which entails one doctor having patients in multiple exam rooms at a time. In order to accommodate an immediate need for more exam rooms as well as accommodate another 1-2 doctors in the practice in the coming years, I would want the practice to have at least 7 exam rooms. As boarding will be discontinued after acquisition, the kennel area could be converted to additional exam rooms.

Aesthetic updates in the front of the practice will also be a priority. The front lobby and exam rooms are often the only parts of the hospital a client can see. Providing quality medicine should always be the top priority, but having a comfortable aesthetic gives clients a sense of trust in the practice as well as a sense of value which reflects the quality of medicine I hope to provide.

Part of the renovation budget should be reserved for a new, updated sign. OAH is on a well-trafficked road, meaning many potential clients drive by the hospital every day. Updated signage draws potential clients' attention to the hospital and may remind them of a pet that is due for veterinary care.

Any remaining funds could be used to upgrade old equipment to continue to provide the hospital's clients and patients with high quality medicine. The conventional radiograph machine will likely need to be replaced in the near future, and should be high on the priority list for replacement with a digital radiograph machine with an expected cost of between \$30,000-\$60,000.

Loan Application and Offer

Once I have a good understanding of this practice, I would next approach a lender. I will select a lender that is familiar with the veterinary industry, as there are many nuances that may otherwise be overlooked with a general lender.

I will complete a loan application and provide the lender with the attached detailed business plan, resume, and letter detailing my qualifications to become a practice owner.

I will likely apply for both a real estate loan and a start-up loan to acquire the practice. After working for 5 years as an associate with plans to own a practice, I have been saving and have money to contribute to the purchase (owner equity). Specific terms such as interest rate and required owner equity would depend on the lender and financial conditions at the time of the loan, but for estimates used elsewhere in this case, I assume:

- A \$400,000 20-year real estate loan with a 4.5% interest rate, \$20,000 buyer equity, and 3% loan fees. The yearly payment would be \$29,714 on the \$391,400 loan.
- A \$300,000 10-year start-up practice loan with a 4.3% interest rate, \$15,000 buyer equity, and 3% loan fees. The yearly payment would be \$36,085 on the \$293,550 loan.

Even though I will be initially offering less than asking price for the practice, I still request a \$300,000 pre-approval from the lender, as some funds will be needed for renovation and equipment purchases.

I next enlist the help of an attorney to compose an offer letter. After being presented with an offer, the seller can choose to make a counteroffer. I will navigate negotiations with the help of the attorney and agree to a final purchase price with the seller. In the negotiation process, I will justify my offer of below purchase price as described in the "valuation" discussion above. For projection purposes, I have assumed a \$200,000 final offer price.

In the period before closing the transaction, I will work with my assembled team to perform due diligence and make sure any unexpected occurrences are handled appropriately.

Implementation

Once the practice has been acquired, I will begin implementing changes based on areas of growth and opportunity identified in the research stage.

Hospital Operating Hours

The hospital is open too many hours every week for the current client load. I would close the practice on Wednesday and Saturday until client numbers justify having more operating hours. Closures on these dates will enable the clinic to be staffed by the CVT, technician, and assistant during almost all hours the clinic is open, which is imperative to increasing doctor efficiency.

Staffing

A relief veterinarian will be paid 30 days per year to allow the owner time for managerial work and vacation. Pre-acquisition, the associate at this practice has shown decreasing efficiency over the last three years and in 2020 was paid 33% production. Please see “Veterinary Compensation” (Figure 7). Although it is unclear whether this veterinarian is paid an hourly rate, production, or a yearly salary, 33% production is too high [5]. Moving forward, I will offer a relief veterinarian a base daily rate or 20% production for the day. In projections, I used a base daily rate of \$650 for ease of calculation.

While the clinic can only support one full time veterinarian currently, the need for an additional veterinarian will be continuously reassessed.

Other staffing considerations include reduction of the kennel staff due to discontinuation of boarding and keeping the practice manager on the team on a trial basis. I have concerns that the size of this practice does not currently necessitate a practice manager, so I would want to closely analyze the practice manager’s contribution to the success of the practice and reevaluate staffing after several months.

Training

Training existing staff and developing a training program for new hires will be very important to the success of the practice. Training should reflect core values and the mission of the hospital. Good training of the CVT, technician, and assistant is also key to maximizing veterinarian efficiency and improving client compliance with veterinary recommendations.

Letter to Lender



KOTSCH ANIMAL HOSPITAL

September 25th, 2021

To Whom It May Concern,

Thank you for taking the time to review my loan request for Kotsch Animal Hospital.

I am interested in purchasing and upgrading the existing Opportunity Animal Hospital. Its location in a highly visible and trafficked area make it desirable and my demographic analysis supports it as a viable business venture.

As noted in my attached resume, I am a successful veterinarian with a strong background in business. I have been contemplating acquiring my own hospital for some time. My demographic and financial analysis of this particular practice support my conservative offer for its purchase. I am also requesting funds for short term equipment purchase and facility expansion that will allow me to establish the successful venue for the high quality, community-oriented veterinarian practice I envision.

I have attached the Kotsch Animal Hospital business proposal along with supporting financial information and projections. Please let me know if there is anything else I can provide.

Sincerely,

Lyla Kotsch

Kotsch Animal Hospital Business Proposal



KOTSCH ANIMAL HOSPITAL

EXECUTIVE SUMMARY

Mission Statement

It is our mission to improve the lives of pets and people by providing compassionate high quality veterinary care.

Core Values

Connection. Kotsch Animal Hospital (KAH) is an integral part of the surrounding community, and is a trusted source of care and education. Our medical director organizes two monthly community outreach events at the veterinary clinic, local elementary schools, with local animal control officers, and with animal shelters and rescue organizations. These efforts improve the health of pets throughout the community and promote compliance with veterinary care.

KAH also connects with the community by maintaining a community fund. Donations to this fund are made available to clients who cannot afford veterinary care.

Finally, connection is promoted with monthly community meetings at the clinic. Groups are created based on demand, and might include subjects such as “Managing Chronic Kidney Disease” and “Pet Loss Support.” These events provide a space for owners to connect over their pets’ health, and provides an opportunity for client education. Our clients feel more of a connection to the hospital and the community as a result of attending these meetings.

Ownership. Staff are given areas of responsibility throughout the hospital and given freedom to manage their role. Instead of telling staff how to do things, management communicates what needs to be done, allowing ownership and problem solving within the workplace. A sense of ownership is instilled with everyone at the hospital through distribution of equity that vests after two years with the company, so all staff is invested in the success of the hospital.

Teamwork. Staff at KAH are trained to have a team mentality, knowing that the hospital benefits more from a concerted effort than from individual effort alone. Teamwork is emphasized in training and encouraged through staff bonding events as well as community outreach.

COMPANY DESCRIPTION

Veterinary medicine is experiencing a period of unprecedented growth. Statistics here. These trends are not expected to change. Kotsch Animal Hospital will take lessons learned from traditional veterinary medicine along with a forward thinking mindset to propel the practice into financial success with the ultimate goal of improving the lives of pets, clients, and our own team members.

MARKET ANALYSIS

Industry Trends

Due to the COVID-19 pandemic, demand for veterinary care is at an all-time high. Many pets have been adopted since the pandemic began, and people are spending more time at home than ever before, increasing the likelihood that a person will notice their pet acting abnormally and feel inclined to present him/her to the vet.

Customers

Based on thorough demographic analysis, the target market for Kotsch Animal Hospital is pet owners who want high quality veterinary care. These customers need to see the value that is being provided in order to be less sensitive to cost, and appreciate events and outreach that cause them to feel more connected to their community. They prefer thorough service over fast service, and are quick to tell their family and friends about their customer experience whether good or bad. These customers consider their pets to be members of their family.

ORGANIZATION AND MANAGEMENT

Kotsch Animal Hospital is structured as an S corporation as it meets all requirements of S corporation formation and will benefit from limited liability, ease of ownership transfer, and avoidance of double taxation.

Leadership

Owner/Medical Director: Lyla Kotsch

Certified Public Accountant (CPA)

Masters Degree in Public Accountancy

President of the Veterinary Business Management Association in Veterinary School

Graduate of the Veterinary Entrepreneurship Academy (VEA)

Practice Manager: John Smith

13 Years Experience

Lead Veterinary Technician: Jane Smith

Certified Veterinary Technician (CVT)

16 Years Experience

Practice Culture

Kotsch Animal Hospital's culture reflects its core values. Community, ownership, and teamwork are the pillars of the hospital. Training of all roles is thoughtfully prepared and implemented to enable confidence of new hires and maintenance of core values.

SERVICE

The service offered to customers of KAH is complete medical care of their pets. Each patient is treated as an individual.

A wellness plan is offered that includes monthly heartworm, flea, and tick prevention, two physical exams per year, a dental cleaning every year if indicated, annual bloodwork, and access to KAH's monthly support groups. Monthly support groups are offered free of charge to foster connections between clients and to team members.

MARKETING AND SALES

Currently, approximately \$10,000 is spent on advertisement yearly, \$6,000 of which is spent on Yellow Pages advertisements. Yellow Pages advertisements will be discontinued moving forward and instead this budget will be used to promote search engine optimization and targeted advertisements on Facebook, Instagram, and other popular mediums in the area based on demographic research.

Carryover Client Retention

One of the largest components of the practice's value is goodwill, specifically existing relationships with clients. KAH management will create a list of the most valuable clients at the time of acquisition and focus marketing efforts on retaining these specific customers.

Search Engine Optimization (SEO)

Search engine optimization is an important advertisement investment for a veterinary clinic, and will help to promote KAH to potential clients in the area searching for veterinary services.

Signage

Kotsch Animal Hospital is on a well-trafficked road, meaning many potential clients drive by the hospital every day. Updated signage draws potential clients' attention to the hospital and may remind them of a pet that is due for veterinary care.

Website and Social Media

It is important to maintain a clean, informative website with educational materials to instill trust in the practice. Within the first year of acquisition, a professional photographer will be hired to take pictures of the team and their pets for a "Bring Your Pet to Work" day. This will not only serve as a teambuilding event but will also provide photographs to be used on the practice's website. In addition to educational materials and photos, the website will also include team member biographies, links to the practice's online pharmacy, and an appointment request link.

Kotsch Animal Hospital will establish a presence on social media (e.g. Facebook and Instagram). By posting original content, KAH can interact with existing clients and have a free marketing platform to friends of clients as clients often repost pictures of their own pets at KAH.

Community Involvement

One of the core values of KAH is community, and community involvement is very important to this core value. Representatives of the hospital will attend local events, such as races and local shelter adoption events. The hospital will also host several events annually, including a holiday photo event and a summer cool-off event, for current and prospective clients. These events will help promote the hospital and serve as opportunities to educate pet owners.

FUNDING REQUEST

(1) Real Estate Loan. This funding will be used solely for the purchase of the real estate associated with Opportunity Animal Hospital. This real estate has a current MAI appraisal backing the purchase price (\$400,000).

(2) Start-Up Loan. Of the amount requested (\$300,000), a portion will be used in the acquisition of the practice (\$160,359), a portion will be used for renovation in two stages over the next three years (\$100,000), and the remaining amount (\$39,641) will be used for inventory supplies (\$19,792) and payroll (\$19,849) in the first three months of operation.

FINANCIAL PROJECTIONS

Please see the following supporting information for financial projections.

Supporting Information

Figure 1: Revenue Breakdown

Revenue Breakdown					
	2020 Revenue	% of Revenue	Benchmark	2020 Expenses	I/E Ratio
Laboratory	\$ 98,216	20%	18.2 (1)	\$ 13,883	7.1
Professional Services	\$ 73,662	15%	27.5 (2)		
Flea & Heartworm Products	\$ 73,662	15%	9.5 (2)		
Vaccinations	\$ 49,108	10%	7.1 (2)		
Boarding	\$ 49,108	10%		\$ 77,490 (3)	0.6
Pharmacy	\$ 39,287	8%	16.8 (2)		
Dietary	\$ 29,465	6%	3.2 (2)	\$ 15,478	1.9
Grooming	\$ 14,732	3%			
Dental	\$ 14,732	3%	4.5 (1)		
Other Miscellaneous	\$ 49,108	10%			
Total	\$ 491,082	100%			

Dental Revenue	
Number of Dental Procedures	59
Dental Compliance	2%
20% Compliance Projected Revenue	\$ 193,150
Additional Revenue	\$ 178,418

(1) Simmons "Key Performance Indicators for Practice Financial Health." David McCormick and Sherry Everhart; Simmons Veterinary Practice Sales and Appraisals. <https://simmonsinc.com/wp-content/uploads/2020/10/KPIs-for-Financial-Health-1.pdf>

(2) American Veterinary Medical Association. "2019 AVMA Benchmarks."

(3) This amount includes not only Cost of Professional Services (estimated food and supplies costs) but also the compensation and payroll taxes for kennel staff as this income can be directly attributed to the boarding revenue stream. However, since direct staffing expenses are included in this calculation, the value cannot be compared as a benchmark, though the value of <1 indicates expenses exceeding income for this category.

Figure 2: Payroll

Staff Compensation - Percentage of Income Statement Method					
<u>Position</u>	<u>Hourly Wage</u>	<u>Percentage Payroll</u>	<u>2020 Payroll</u>	<u>Payroll w/ Payroll Taxes</u>	
Practice Manager	\$ 19.30	17%	\$ 27,938	\$ 30,075	
CVT	\$ 24.35	21%	\$ 35,248	\$ 37,945	
Technician	\$ 14.60	13%	\$ 21,134	\$ 22,751	
Assistant	\$ 12.00	10%	\$ 17,371	\$ 18,700	
Kennel Staff (5)	\$ 45.00	39%	\$ 65,140	\$ 70,124	
Total	\$ 115.25	100%	\$ 166,832	\$ 179,595	

Staff Compensation - Hourly Wage Method					
<u>Position</u>	<u>Hourly Wage</u>	<u>Annual Hours</u>	<u>2020 Payroll</u>	<u>Payroll w/ Payroll Taxes</u>	
Practice Manager	\$ 19.30	2000	\$ 38,600	\$ 41,553	
CVT	\$ 24.35	2000	\$ 48,700	\$ 52,426	
Technician	\$ 14.60	2000	\$ 29,200	\$ 31,434	
Assistant	\$ 12.00	2000	\$ 24,000	\$ 25,836	
Kennel Staff (5)	\$ 45.00	2000	\$ 90,000	\$ 96,885	
Total	\$ 115.25		\$ 230,500	\$ 248,133	

To calculate the total compensation for each position including payroll taxes, two different methods were utilized. In the percentage of income statement method, the total payroll on the 2020 Tax Return was used to back calculate the compensation for each position based on percentage of hourly wage with respect to total. In the second method, hourly wages were used as the starting point with 2000 annual hours assumed for a full time position (40 hours per week, 50 weeks per year). Payroll taxes were assumed to be 7.65%.

Figure 3: 2021 Income Statement Projections

2021 Income Statement Projections						
	2021		2021		2020	
	Projected (Boarding, Staffing, and Ordering Modifications & Post-Purchase Adjustments)		Projected (Boarding and Staffing Modifications)		Tax Return	
REVENUE						
Fees for Services	527,122	100.0%	527,122	100.0%	491,082	100.0%
Returns/Refunds	-	0.0%	-	0.0%	-	0.0%
TOTAL REVENUE	527,122	100.0%	527,122	100.0%	491,082	93.2%
COST OF PROF SERVICES						
Drugs & Medical Supplies	90,990	17.3%	97,838	18.6%	91,149	18.6%
Hospital Supplies	7,330	1.4%	7,330	1.4%	9,116	1.9%
Laboratory Costs	13,883	2.6%	13,883	2.6%	12,934	2.6%
Radiology	595	0.1%	595	0.1%	554	0.1%
Dietary	15,478	2.9%	15,478	2.9%	18,995	3.9%
Animal Burial and Cremation	3,882	0.7%	3,882	0.7%	3,617	0.7%
Lease equipment supplies	2,839	0.5%	2,839	0.5%	2,645	0.5%
TOTAL COST OF PROF. SERVICES	134,997	25.6%	141,846	26.9%	139,010	28.3%
GROSS PROFIT	392,125	74.4%	385,276	73.1%	352,072	71.7%
OPERATING EXPENSES						
ADMINISTRATIVE EXPENSES						
Advertising	10,267	1.9%	10,267	1.9%	10,267	2.1%
Bank Charges/Credit Card Charges	4,516	0.9%	4,516	0.9%	4,516	0.9%
Meals & Entertainment	-	0.0%	-	0.0%	-	0.0%
Miscellaneous	206	0.0%	206	0.0%	206	0.0%
Office Expense	5,427	1.0%	5,427	1.0%	5,427	1.1%
Professional Fees (Legal, Acctg)	3,848	0.7%	3,848	0.7%	3,848	0.8%
TOTAL ADMINISTRATIVE EXPENSES	24,264	4.6%	24,264	4.6%	24,264	4.9%
COMPENSATION & BENEFITS						
Professional Staff Costs						
Compensation of Owner	105,000	19.9%	105,000	19.9%	48,000	9.8%
Compensation of Associates / Relief	19,500	3.7%	19,500	3.7%	42,043	8.6%
Specialists	1,090	0.2%	1,090	0.2%	1,090	0.2%
<i>Prof. Staff Compensation sub-total</i>	<i>125,590</i>	<i>23.8%</i>	<i>125,590</i>	<i>23.8%</i>	<i>91,133</i>	<i>18.6%</i>
Support Staff Costs						
Support Staff Compensation	101,692	19.3%	101,692	19.3%	166,832	34.0%
<i>Staff Compensation sub-total</i>	<i>101,692</i>	<i>19.3%</i>	<i>101,692</i>	<i>19.3%</i>	<i>166,832</i>	<i>34.0%</i>
Benefits						
Dues and Subscriptions	1,024	0.2%	1,024	0.2%	1,024	0.2%
Education and Training	85	0.0%	85	0.0%	85	0.0%
Payroll Taxes	13,789	2.6%	13,789	2.6%	20,674	4.2%
Permits & Fees	213	0.0%	213	0.0%	213	0.0%
Taxes and Licenses	656	0.1%	656	0.1%	656	0.1%
<i>Benefits sub-total</i>	<i>15,767</i>	<i>3.0%</i>	<i>15,767</i>	<i>3.0%</i>	<i>22,652</i>	<i>4.6%</i>
TOTAL COMPENSATION & BENEFITS	243,049	46.1%	243,049	46.1%	280,617	57.1%
FACILITY & EQUIPMENT COSTS						
Equipment Rental	537	0.1%	537	0.1%	537	0.1%
Insurance	8,072	1.5%	8,072	1.5%	8,072	1.6%
Property Tax	5,433	1.0%	5,433	1.0%	5,433	1.1%
Rent	29,714	5.6%	32,400	6.1%	32,400	6.6%
Repairs & Maintenance	1,817	0.3%	1,817	0.3%	1,817	0.4%
Telephone	7,478	1.4%	7,478	1.4%	7,478	1.5%
Security	186	0.0%	186	0.0%	186	0.0%
Utilities	7,585	1.4%	7,585	1.4%	7,585	1.5%
TOTAL FACILITY & EQUIPMENT COSTS	60,822	11.5%	63,508	12.0%	63,508	12.9%
OTHER EXPENSE (INCOME)						
Depreciation	10,000	1.9%	750	0.1%	750	0.2%
Amortization (Goodwill)	2,579					
Other Income/Expense	(2,432)	-0.5%	(2,432)	-0.5%	(2,432)	-0.5%
TOTAL OTHER INCOME (EXPENSE)	10,147	1.9%	(1,682)	-0.3%	(1,682)	-0.3%
TOTAL OPERATING EXPENSES	338,282	64.2%	329,139	62.4%	366,707	74.7%
TOTAL EXPENSES	473,279	89.8%	470,984	89.4%	505,717	103.0%
TOTAL OPERATING INCOME	53,843	10.2%	56,138	10.6%	(14,635)	-3.0%

(1) Projected revenue is taken from the "ACT and Efficiency" workbook. Assumptions include eliminating boarding and increasing non-boarding transactions/appointments.

(2) Cost of professional services were adjusted to reflect increased revenue (total cost was calculated based on existing costs as a percentage of revenue except where otherwise noted).

(3) Hospital supplies were adjusted to reflect the presumed decrease in hospital supplies with discontinuation of boarding services. A conservative estimate of 1% of boarding revenue was made for boarding supplies.

(4) \$2 per pet per day of boarding was subtracted from dietary expenses to reflect discontinuation of boarding services. Number of days of boarding was extrapolated by dividing boarding revenue by an estimated \$20/day boarding charge.

(5) Administrative expenses were not changed from actual 2020 numbers as not enough information is provided on the specifics of these costs. An increase in revenue should not increase these types of expenses.

(6) Owner compensation has been adjusted to reflect 34 hours per week of work in the capacity of veterinarian, 6-12 hours per week of work in a managerial role, and return on investment (practice and real estate purchase).

(7) Associate veterinarian/relief veterinarian compensation has been adjusted to reflect 2.5 shifts per month at \$650 per shift. The owner veterinarian will use these relief days for managerial work and vacation time.

(7a) Payroll has been reduced by the compensation for kennel staff due to the discontinuation of boarding services.

(7b) Payroll taxes for kennel staff have been subtracted.

(8) The current cost of professional services is outside the Simmons KPI of 22-25% of revenue. After performing an income/expense ratio analysis (see "Revenue Breakdown" workbook), I assume that there is an inefficiency with ordering drugs and medical supplies. This adjusted value reflects 7% savings in this category after streamlining pharmacy offerings to decrease wastage and utilizing ordering discounts.

(9) After purchase of the practice's real estate, the 'rent' line item has been adjusted to reflect payment on the real estate note.

(10) Depreciation has been adjusted post-purchase. This value reflects a \$100,000 renovation and equipment budget with a 10-year straight line depreciation schedule.

(11) Amortization of goodwill over a 15-year period.

Figure 4: ACT and Efficiency Statement Projection

Average Client Transaction and Efficiency				
	2021 Projected		2020 Actual	
Patient Visits (Boarding)	-		980	(1)
Patient Visits (Other)	4,272	(4)	3,582	
Total Patient Visits	4,272		4,562	
Gross Revenue	\$ 527,122	(5)	\$ 491,082	
Average Customer Transaction	\$ 123.39		\$ 107.65	
ACT (boarding only)	\$ -		\$ 50.00	(2)
ACT (without boarding)	\$ 123.39		\$ 123.39	
Weekly Hours Open	42	(6)	57	
Annual Hours Open	2,136	(7)	2,890	(3)
Patient Visits/Hour	-		1.6	
Patient Visits/Hour (without boarding)	2.0	(8)	1.2	

(1) Number of patient visits attributed to boarding was extrapolated from 2020 boarding revenue by assuming a \$20 daily boarding fee and an average boarding duration of 2.5 days.

(2) Average client transaction for boarding was extrapolated by assuming a \$20 daily boarding fee and an average boarding duration of 2.5 days.

(3) Published weekly hours in 2020 less 48 hours for holiday closures.

(4) Projected patient visits is calculated assuming 2 patient visits per hour (see note 8) and 2136 hours open annually (see note 7). Note that this is an approximated increase in 690 non-boarding visits per year. Please see advertisement and marketing discussions that support this increase.

(5) Gross revenue is extrapolated using calculated ACT from 2020 for non-boarding transactions multiplied by projected 2021 patient visits.

(6) 42 weekly hours reflects closure of the practice on Wednesday and Saturday until client load can support additional operating hours.

(7) Modified weekly 2021 hours less 48 hours for holiday closures.

(8) With efficient scheduling and adequate support staff (one assistant and two technicians full time), 2 patient visits per hour is an achievable goal in this practice. This figure is used to extrapolate projected patient visits and subsequently projected gross revenue.

Figure 5: Adjusted Income Statements

Income Statements - Opportunity Animal Hospital								
	2020		2020		2019		2018	
	ADJUSTED (valuation purposes)		Tax Return		Tax Return		Tax Return	
REVENUE								
Fees for Services	491,082	100.0%	491,082	100.0%	493,589	100.3%	516,385	99.8%
Returns/Refunds	-	0.0%	-	0.0%	(1,247)	-0.3%	779	0.2%
TOTAL REVENUE	491,082	100.0%	491,082	100.0%	492,342	100.0%	517,164	100.0%
COST OF PROF SERVICES								
Drugs & Medical Supplies	91,149	18.6%	91,149	18.6%	98,409	20.0%	65,874	12.7%
Hospital Supplies	9,116	1.9%	9,116	1.9%	13,445	2.7%	19,785	3.8%
Laboratory Costs	12,934	2.6%	12,934	2.6%	11,698	2.4%	8,989	1.7%
Radiology	554	0.1%	554	0.1%	50	0.0%	1,695	0.3%
Dietary	18,995	3.9%	18,995	3.9%	20,101	4.1%	18,645	3.6%
Animal Burial and Cremation	3,617	0.7%	3,617	0.7%	4,458	0.9%	3,184	0.6%
Lease equipment supplies	2,645	0.5%	2,645	0.5%	7,932	1.6%	7,932	1.5%
TOTAL COST OF PROF. SERVICES	139,010	28.3%	139,010	28.3%	156,093	31.7%	126,104	24.4%
GROSS PROFIT	352,072	71.7%	352,072	71.7%	312,186	63.4%	252,208	48.8%
OPERATING EXPENSES								
ADMINISTRATIVE EXPENSES								
Advertising	10,267	2.1%	10,267	2.1%	11,328	2.3%	9,904	1.9%
Bank Charges/Credit Card Charges	4,516	0.9%	4,516	0.9%	4,080	0.8%	4,865	0.9%
Meals & Entertainment	-	0.0%	-	0.0%	21	0.0%	-	0.0%
Muscellaneous	206	0.0%	206	0.0%	360	0.1%	-	0.0%
Office Expense	5,427	1.1%	5,427	1.1%	6,283	1.3%	6,882	1.3%
Professional Fees (Legal, Acctg)	3,848	0.8%	3,848	0.8%	1,725	0.4%	1,485	0.3%
TOTAL ADMINISTRATIVE EXPENSES	24,264	4.9%	24,264	4.9%	23,797	4.8%	23,136	4.5%
COMPENSATION & BENEFITS								
Professional Staff Costs								
Compensation of Owner	24,000	4.9%	48,000	9.8%	42,000	8.5%	57,000	11.0%
Compensation of Associates	42,043	8.6%	42,043	8.6%	31,760	6.5%	46,270	8.9%
Specialists	1,090	0.2%	1,090	0.2%	2,560	0.5%	3,650	0.7%
<i>Prof. Staff Compensation sub-total</i>	<i>67,133</i>	<i>13.7%</i>	<i>91,133</i>	<i>18.6%</i>	<i>76,320</i>	<i>15.5%</i>	<i>106,920</i>	<i>20.7%</i>
Support Staff Costs								
Support Staff Compensation	166,832	34.0%	166,832	34.0%	169,721	34.5%	164,977	31.9%
<i>Staff Compensation sub-total</i>	<i>166,832</i>	<i>34.0%</i>	<i>166,832</i>	<i>34.0%</i>	<i>169,721</i>	<i>34.5%</i>	<i>164,977</i>	<i>31.9%</i>
Benefits								
Dues and Subscriptions	1,024	0.2%	1,024	0.2%	2,233	0.5%	1,250	0.2%
Education and Training	85	0.0%	85	0.0%	413	0.1%	609	0.1%
Payroll Taxes	20,674	4.2%	20,674	4.2%	20,362	4.1%	23,807	4.6%
Permits & Fees	213	0.0%	213	0.0%	51	0.0%	216	0.0%
Taxes and Licenses	656	0.1%	656	0.1%	-	0.0%	705	0.1%
<i>Benefits sub-total</i>	<i>22,652</i>	<i>4.6%</i>	<i>22,652</i>	<i>4.6%</i>	<i>23,059</i>	<i>4.7%</i>	<i>26,587</i>	<i>5.1%</i>
TOTAL COMPENSATION & BENEFITS	256,617	52.3%	280,617	57.1%	269,100	54.7%	298,484	57.7%
FACILITY & EQUIPMENT COSTS								
Equipment Rental	537	0.1%	537	0.1%	536	0.1%	536	0.1%
Insurance	8,072	1.6%	8,072	1.6%	10,208	2.1%	11,115	2.1%
Property Tax	5,433	1.1%	5,433	1.1%	5,443	1.1%	4,962	1.0%
Rent	32,400	6.6%	32,400	6.6%	32,400	6.6%	32,400	6.3%
Repairs & Maintenance	1,817	0.4%	1,817	0.4%	3,515	0.7%	3,909	0.8%
Telephone	7,478	1.5%	7,478	1.5%	6,544	1.3%	5,928	1.1%
Security	186	0.0%	186	0.0%	186	0.0%	372	0.1%
Utilities	7,585	1.5%	7,585	1.5%	8,423	1.7%	8,761	1.7%
TOTAL FACILITY & EQUIPMENT COSTS	63,508	12.9%	63,508	12.9%	67,255	13.7%	67,983	13.1%
OTHER EXPENSE (INCOME)								
Depreciation	-	0.0%	750	0.2%	944	0.2%	1,139	0.2%
Other Income/Expense	(2,432)	-0.5%	(2,432)	-0.5%	(498)	-0.1%	-	0.0%
TOTAL OTHER INCOME (EXPENSE)	(2,432)	-0.5%	(1,682)	-0.3%	446	0.1%	1,139	0.2%
TOTAL OPERATING EXPENSES	341,957	69.6%	366,707	74.7%	360,598	73.2%	390,742	75.6%
TOTAL EXPENSES	480,967	97.9%	505,717	103.0%	516,691	104.9%	516,846	99.9%
TOTAL OPERATING INCOME	10,115	2.1%	(14,635)	-3.0%	(24,349)	-4.9%	318	0.1%

(1) This value would have to be adjusted to reflect what the owner is paid for their work as a veterinarian only. As this information is not provided, an assumption of 50% of total compensation was made.

(2) Usually, calculating a fair market value for rent is a necessary adjustment if the real estate belongs to the practice, but a rent amount has already been accounted for and is unchanged in the adjustment due to lack of specific location information.

(3) Adjustment for non-economic expense.

Figure 6: Valuation

Opportunity Animal Hospital Valuation			
Method		Multiplier	Valuation
Income Method - EBITDA	(1)	6	60,690
Income Method - Net Sales	(2)	0.7	343,757
Asset Method			76,630
Average			160,359

(1) Net income from adjusted 2020 income statement (\$10,115).
 (2) Revenue from 2020 income statement (\$491,182).

Asset Valuation	
Asset	Value
Idexx Lasercyte	\$ 2,500
Abaxis VS2	\$ 3,000
VetTest 8008	\$ 1,000
Ultrasonic Scaler	\$ 1,000
Isoflurane Anesthetic Machine	\$ 7,000
Conventional X-Ray Machine	\$ 5,000
Autoclave	\$ 3,500
Fluid Pumps	\$ 5,000
Avimark	\$ 7,000
EKG/PulseOx	\$ 3,000
Client List	\$ 38,630
Total	\$ 76,630

Figure 7: Veterinarian Compensation

Veterinarian Compensation Analysis							
<u>Doctor Production</u>		<u>2020</u>		<u>2019</u>	<u>2018</u>		
Owner	\$	265,304	70%	\$ 222,712	60%	\$ 170,540	45%
Associate	\$	111,287	30%	\$ 146,332	40%	\$ 207,269	55%
Total	\$	376,591		\$ 369,044		\$ 377,809	
<u>Doctor Compensation</u>							
Owner	\$	48,000	53%	\$ 42,000	57%	\$ 57,000	55%
Associate	\$	42,043	47%	\$ 31,760	43%	\$ 46,270	45%
Total	\$	90,043		\$ 73,760		\$ 103,270	
<u>Compensation (% of Production)</u>							
Owner		18%		19%	33%		
Associate		38%		22%	22%		

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