OTHER EXIT STRATEGIES FOR RETIREMENT

There are several ways to plan for your retirement and the passing of your veterinary practice to another individual or business. In this article we'll touch on some of those options.

By Kimberly S. Brown

At the 2013 AAEP Business Education meeting, Charlotte A. Lacroix, DVM, JD, and James E. Guenther, DVM, MBA, MHA, CVPM, AVA, covered several ways that you can prepare today to retire from practice in the future. One way addressed in great detail in "Planning for Retirement: Bringing In an Associate" was taking on an associate veterinarian with the expectation that this person will "buy out" your interest in the practice at some point in the future.

In this article we'll hear tips from Guenther and Lacroix about other options that you might consider.

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You might have another veterinary practice want to acquire your business.

Here are some common "reasons" that Guenther said are often used to delay the exit planning process:

- You are not sure exactly how to start the process or who to call for help.
- You have difficulty discussing financial matters and personal goals with others, especially outsiders.
- You believe the time is not right to start the process.
- The process seems too daunting.
- You are afraid (or paralyzed with fear) of what life will be like after exiting the practice.

"It is not unexpected to learn, with fears and anxieties about the future, that fewer than 30% of your colleagues have an actionable plan in place," said Guenther.

Lacroix said you should consider who *you* want to be your successor. She said there are many answers to this question, including:

- nobody, and I don't care
- merger: putting multiple practices together. "I think this is a viable option for equine practices," said Lacroix.
- corporate consolidators
- internal sale to an associate or partner
- external sale to buyer off the street ("This is much harder," noted Lacroix.)

Merger
A merger is what happens when two practices agree to go forward as a single new company rather than remain separately owned and operated. Generally the two practices that merge are about the same size.

"As equine vets, we are independently minded, so this sometimes is harder than one might think," noted Lacroix.

Funding the Buy-Out
Whether you are looking for a merger or an individual to buy you out, unless you sell out entirely, there can be challenges with the purchasing party getting financing, noted Lacroix.

"If you are selling 20% to someone, they will not be able to get 100% independent financing unless they have collateral equal to price," she noted. "They can borrow say $120,000, but they have to have collateral. You don't want the business to secure a debt for a partner to buy a piece of that business. That devalues the business."

If you have a 100% sale you might be able to get commercial funding, but that also could depend on the cash flow of the business.

Sometimes the veterinarian selling the practice will finance the purchase. This could be beneficial to both parties, but the legal and financial aspects of this need to be spelled out in detail.

If you decide to secure the lender's loan for the buy-out, "You want them to have psychological skin in the game," said Lacroix. That means they should offer some downpayment.

Keep in mind that if you are selling practice assets, you can get security on those assets. "You also can require reports on the business finances from the purchaser," Lacroix and Guenther noted.

Other things you might want to do if you secure the loan:

- Require reports
- Have a "lockbox" with so much money in it for supporting payments
- Maintain some oversight over the practice's business and finances
- Have access to the company's financials
- Have voting power in business decisions
- Make sure there is a default clause that spells out what happens if the buying veterinarian cannot make payments

Are You Ready?
While there are many questions that need to be answered by the purchasing party about finances and liability, there also are some questions that the practice owner needs to ask himself:

- I am ready to sell, but is my practice ready to buy?
- How do I attract the "good" buyers (committed, wealthy, trustworthy)?
- Am I willing to finance 100%?
- Am I willing to finance up to 20% or more, and be in a subordinate position?

Partnership Algebra
Partnership is a relationship between power, money and risk, noted Dr. Lacroix. In addition, there are some legal aspects that you need to be aware of before you decide to sell part of your business:

- If I own 30% of business and you own 70%, generally that means I get 30% of profits and you get 70% of profits.
- If we borrow $750,000, then we are both responsible for 100% of the debt.
- I have 30% of the power, which is really equal to 0!
- The person who has power controls the budget, and that person controls the destiny of the business.

Co-ownership issues to think about include:

- business structure
- compatibility of the parties
- allocation of operational responsibilities
- revenue and profits
- perks
- liabilities
- non-competes (What if your partner starts another practice in the practice's trade area while still in partnership with you? That person will have divided his loyalties and no longer focus 100% on the practice you mutually own.)
- governance issues (Who run the company, who controls the budget and what can minority owners vote on?)
- managerial issues (exit strategy, voluntary vs. involuntary, funding and dispute resolution)

Remember, "voluntary transfers" means you have a choice:

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- Third party offers
- Rights of first refusal
- Tag-along rights…drag-along rights—if you are a minority owner, the majority owner can sell out and drag along the minority owner.

While there are problems that can arise with partnerships, there also are many advantages if they are properly structured. Those include:

- shared overhead
- leverage of debt, time and stress
- more efficient use of equipment and staff
- more services and greater revenue, which means the business will be more profitable
- shared emergency and leave coverage
- succession planning (you have a partner who wants the business)

Take-Home Message

There are many ways to plan for your retirement from practice, or for the sale of your business. However, all require you to plan in advance to prepare yourself and your business to transfer to other ownership.

Q&A

Question: How often should you do an appraisal on the practice?

Guenther: Every two years. One of reasons is that it is the ultimate scorecard. Something is going to happen in your life that will force you to sell your business.

Lacroix: It's a great management tool. Maybe you have too much inventory or your staff costs are too high. It's a wellness exam.

Question: How much does it cost?

Guenther: There are two types of valuations: Conclusion and calculation value. Conclusion is a book from A to Z, and usually done when you are selling to a third party or you are involved in a dispute or lawsuit. This is expensive, and can run $9,000-$10,000.

Calculation of value is usually used when you decided on one aspect of how to determine value and is less expensive because there is less work involved; it usually runs $2,500-$3,500.

Lacroix: What is the return on investment? You can spend $10,000 paying for one of those (appraisal), but if you can make $50,000 over the next three to five years, then it's worth it. It will teach you how to read a P&L.

Guenther: You can look at the chart of accounts and see how you fit in certain categories, what are your benchmarks and have you met them; then they become areas of how to improve the value of your business. At the next valuation we can see how your business has changed.

Question: We have a mixed animal practice. Do those need to be separated out?

Guenther: It's hard to sell a mixed animal practice. Usually food animal side is what kills you. It's just not there anymore. If you are going to do that, you need to be able to track the profits and expenses in the different sides. You probably will be able to sell the small animal and equine side easier than whole thing. Can you separate them out and have two separate valuations?

Lacroix: Keep in mind there are some associates who still want to do mixed animal practice.

Guenther: And I find the farther west you go the easier it is to sell a mixed animal practice.

Question: As practice owner, what is my liability if the associate vet is pregnant and something happens?

Lacroix: Have you asked her to evaluate with her doctor what she can and can't do? From an employer's perspective, you need to have her discuss with her OB-GYN what she can and can't do. You can also get kicked in head and lose your brain; it's no different. You don't want to put yourself in the position of saying it's your responsibility. Her doctor should write a letter to the pregnant vet and she should share it with you.