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WHEN SHOULD I HAVE MY PRACTICE VALUED?

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We receive calls from veterinarians stating they need to have their practices valued. Great news! The practice owner is putting into action the steps needed to begin the next phase of their career or life. When we ask why and when they need the valuation, the answer we commonly receive is that it is for a sale, they've never had their practice valued or it hasn't been valued in many years, and they have a buyer anxious to close on the sale as soon as possible. Therefore, the quicker the valuation can be completed, the better. When I hear these words, I get a little concerned and often experience a little disappointment. Buy why?

Don't get me wrong, I am not complaining about these calls. I want to do the best work I can for the client. I love valuation work and will do all I can to accommodate a rapid turnaround while keeping report quality at the highest level. No, my disappointment is not for myself or my employer, it is for the caller. Unfortunately, by waiting until the last minute to have their practice valued they risk missing out on thousands, sometimes hundreds of thousands of dollars in practice value.

At WTA Veterinary Consultants (WTA) we provide more than just "the number" for the practice. You know "the number", the practice value that we anxiously look for before beginning to read the details of the valuation report. At WTA, we go beyond determining the practice's value and having a conference call to review and ensure you understand the report. Just as importantly, during the call we speak of opportunities to increase practice earnings, thereby increasing your practice value.

While there are several valuation methods, one method is to base the value on a sum of the assets of the practice and a multiple of earnings before interest, taxes, and amortization. A major component of the practice's value then comes down to the earnings the practice generates from normal operations multiplied by a factor that accounts for risk. You can increase the practice's value by increasing earnings, decreasing risk of generating these earnings, or a combination of the two. However, making these necessary changes and seeing the increased earnings takes time. Practice buyers are going to want to see two, three or more years of earnings when projecting earnings they can expect.

The disappointment arises when I complete a valuation and have to tell the owner that their practice is worth a certain dollar amount, while knowing that a few changes in practice operations made several years earlier would have led to a much higher value. While we discuss and quantify these earnings opportunities during the conference call, will the seller be able to convince the buyer to pay for the potential growth in earnings? Maybe, maybe not. But why even take the risk? Let's delve a little deeper into how investing several thousand dollars for a practice valuation years before a sale can provide returns many times greater than the cost.

An item I want to reiterate is that the practice value is often based on the value of the net assets and a multiple of earnings. Let's look at a simple example:

Lucky Dog Animal Hospital had net assets of \$300,000 at year-end. Their weighted average earnings for the last three years, after paying the owners for their work as veterinarians and managers, was \$200,000. After assessing a number of risk factors, it is determined that a multiplier of five is reasonable. While some additional calculations are necessary, an approximate value for the practice is \$1,300,000. This is calculated by multiplying the \$200,000 in earnings by five and then adding the assets of \$300,000.

In our example, if we can increase the weighted average earnings by \$20,000, doesn't the value of the practice increase by \$20,000? Actually, the practice value increases by \$100,000! The \$20,000 gets multiplied by our risk factor rating of five. The recommendations implemented after a several thousand-dollar investment in a valuation report have returned \$100,000 in practice value!

Is this really possible? Isn't this too good to be true? This is very possible and everyday practice owners are making operational changes that will lead to these increased earnings and practice values. The key is to know where to start. The report allows us to note opportunities for growth or reduce expenses. If you have never had a practice valuation or it has been years since your last valuation, please consider getting your practice valued. It is an excellent tool for identifying areas to increase both practice income and value.