

What Exit Strategy is Right for You?

By Bill Nolan, Vice President

Whether you are 35 years old and have practiced veterinary medicine for 10 years or you're 65 years old and have practiced for 40 years, you must face the same decision and plan for your timely exit from your practice. Every small business owner knows that at some point they will want to leave the business and enjoy the fruits of their labor in retirement.

For many years, most veterinarians who graduated from school in the mid 60s or before have believed and were taught that their practice would be a substantial part of their retirement portfolio. As practice values have declined over the years and the cost of veterinary education for young doctors has skyrocketed, selling a practice is not easy. These two factors have collided at a time when most veterinarians are planning on a return on the capital and asset investment of their practice to help fund or supplement their retirement.

Over the years, most veterinarians have invested large sums of money in the capital assets of a practice. Equipment, computers, lease hold improvements on your facility are all expensive. Any financial manager must decide on the appropriate use of capital in a business. No matter how large or small the business, available capital is not unlimited. In making a decision to allocate capital resources, management must decide and gauge the return on investment that can be anticipated from the expenditure. For example, it would make no sense to invest \$50,000 in new capital assets if management could not anticipate an income stream from those capital assets. Your ability to generate income and make the business profitable is a big part of good solid financial management.

The exit strategy is not complicated, but it must be strategically planned in order to reduce stress and maximize your return on investment. There are several factors in planning for your exit strategy. First and foremost is the time frame for the transition out of the practice. This is a very personal and often very emotional issue for most veterinarians. The timing of retirement is something only each individual can answer for themselves. There are many factors that go into making this decision, not the least of which is how they have planned for their retirement. Once you have decided to leave full-time practice, implementing an exit strategy to bring in an associate doctor or sell your practice outright should move forward. An associate doctor is the logical step in making a smooth transition from practice owner to practice seller.

Regardless of an outright sale or a transition of ownership from one doctor to another, an appraisal of the practice value is necessary. The two most important issues in selling an interest in any practice are the value and terms under which buyer and seller are willing to do business. In today's environment of extraordinary high student loan payments, the terms under which a practice can be sold often are more important than the overall appraised value. The entire process begins with having a clear understanding of the overall value of the subject practice. There are many misconceptions in today's market place as to the formulas and value placed on an veterinary practice.

Once value has been determined buyer and seller can sit down to negotiate the specific terms of the transaction. Terms include things like financing options, covenant not to compete, compensation arrangements, etc. In structuring a purchase agreement to buy a veterinary practice, the terms vary greatly because of the needs of the doctors involved. No two contracts are the same, although there are some general principles and guidelines that apply to everyone.