Key Factors to Consider in Appraisals and Assessing Practice Value

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What are the key factors you should consider when assessing practice value? Profitability and appraisals are both important parts of the process and the following is a list of guidelines and topics to help guide your future research.

Practice Value:

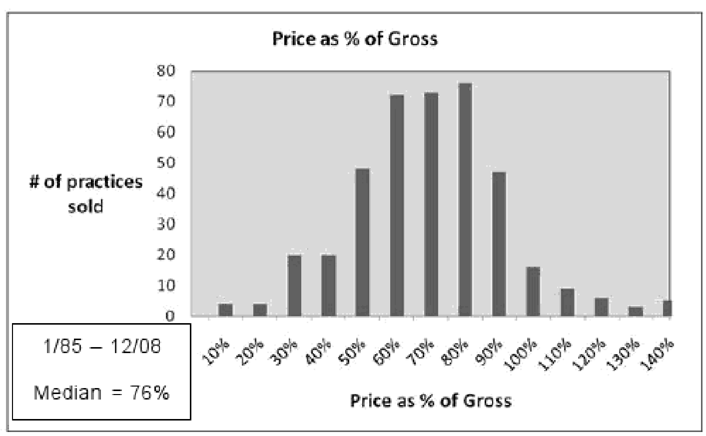
- Profits drive the value of a practice. They are the return on owning the practice and it is the return that is being purchased. The greater the return, the greater the value. Practices have appraised for anywhere from 110% to 15% of gross revenue.

- "Profits" are what you would get if you owned the practice only – meaning you don't work there and you don't own the real estate (i.e., fair market compensation for your veterinary work, fair market rent and clean financials).

- If a practice is financially healthy, it will have profitability in the range of 14-18% of revenues.

- If a practice is financially healthy (14-18% profitability) then it will *probably* have a value that will end up being between 55% to 80% of revenue.

- Asking what a practice will go for is like asking what the cost of surgery is; it is such a broad range that it's tough to be accurate. The recent average of a practice sold by Simmons has a value of roughly 72%, however, they've been sold in a range from 30% to 95% and there's even one on the market now at 110% that will close this month (June 2011).



- The average practice these days has a profitability in the 8-11% range and thus is likely has a value that will end up being between 30% and 50% of gross revenues (if that).

- Practice values in general have been decreasing. There's greater pressure on profitability: increased support staff costs, increasing benefit costs, higher-end pharmaceuticals that can't be marked up as much, etc.

- The economy has also impacted values. If the practice was managing for revenues instead of profitability then typically the revenues *and* the profitability took a hit. Profits go down – so does the practice value.

Assessing Profitability & Practice Appraisals

- <u>It is best to have your practice appraised every 3-5 years</u> for management and planning purposes. If the value is low, the profits were low. If the profits are low it has to be a revenue and/or expense issue and we can help identify the problem(s). Fixing the profitability improves the practice's cash flow, increases the practice profitability and its financial health, and increases the overall practice value.

- An appraisal is an opinion of value – and anyone can give you "an opinion". These are big decisions. If you want a good opinion you need to know where it's coming from and select a qualified veterinary appraiser.

- To assess a potential appraiser, request veterinary references and inquire about their experience level (particularly in the veterinary industry), accreditation and credentials (i.e. ASA, CBA, CVA, AVA, AIBA) with the understanding that they don't guarantee competency, and compare their report to those prepared for you by previous appraisers to assess their report writing competence.

- Any decision on value should be defendable and is based on the appraiser's judgment, the financial analysis, and the conditions in the market for that area (assuming here that the goal is fair market value).

- <u>Free resources</u> for estimating your practice profitability are available on the NCVEI.org website. Find the Profitability Estimator under the Benchmarking tools. It was developed by the Veterinary Valuation Resource Council (VVRC) and is free. It helps you go from the practice tax return to an estimate of your true practice profitability. This is a similar practice to what we do in the No Lo Workshops hosted by VVRC at the major conferences.

- If you'd like more in depth information, please visit the VetPartners website at www.avpmca.org