insightful.vet

The Sale Process: Start to Finish

Roger S. Redman DVM

Partner/ VP Business Development - Ackerman Group

roger.redman@ackerman-group.com

The Sale Process

Today's Agenda

1. Preparing for a Sale
2. Use a Broker? Do it myself?
3. Sale Process and Timelines

insightful.vet

1

Preparing for a Sale

Preparing for a Sale

Plan 1-2 Years in Advance
Do All the Stars Align?

- You personally/professionally -
  Age and Revenue generated?
- Practice Financials- TTM
- Associates
- Buyers Market

Preparing for a Sale – Get All the Stars to Align

- Plan 1-2 years in advance
- TTM is basis for valuation
- Sell when practice is great, not after losing an associate

- Facility is up to date, clean, expandable, number of exam rooms
- Website and Social Media are updated
- Google Reviews

Facility

- Owned or Leased?
- How many exam rooms and square footage?
- Expandable within same footprint?
- Expandable in same lot?
- Renovations needed?

- Buyers will want to know what costs they will incur after sale to update and expand. That will be factored into sale price.

Preparing for a Sale

Financials in Order

- Proper Bookkeeping – i.e. Credit Card entries
- Lab Contracts
- Debts or liens on practice
- Equipment leases

Practice Valuation Beforehand - Normalized!!

- Educational to sellers
- COGS
- DVM/ Non-DVM labor
- EBITDA

insightful.vet

Associates can 'kill' deals

Employment contracts and non-competes provide 'leverage' to ensure Associates sign-on.

Retention incentives for Associates are the 'norm' today.

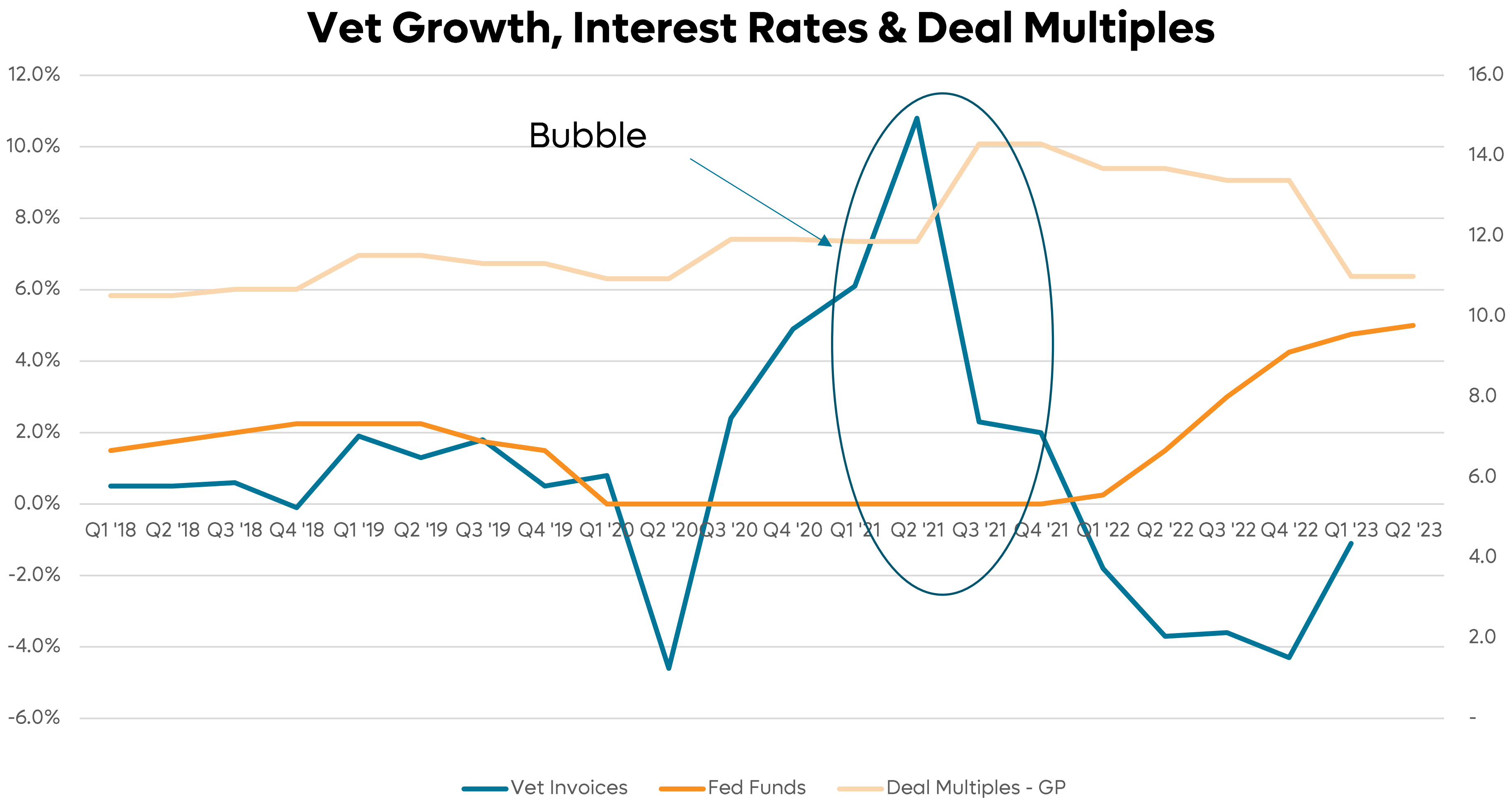
Three typical types of incentives:

A **Cash Retention**

B **TopCo Equity**

C **Joint Venture Ownership in Hospital**

The Buyers Market: It Does Fluctuate



insightful.vet

2

Can I sell it myself? *or* Do I need a broker?

Sell Myself? Use a Broker?

What do these professions have in common?

1. Accountant
2. Real Estate Agent
3. Financial Planner
4. Surgeon

Sell Myself? Need Broker?

Multiple Aspects to Consider

Practice Sale/Partnership

Real Estate Lease/Sale

Sell Myself? Use a Broker?

Practice Sale

1. **Normalized EBITDA:** What is real number?

   Add-backs, One-Time Expenses, Market Rent Rate, Doctor Pay

2. **TopCo Equity:** Stock in parent company

   How is it valued? When can you sell it? What does Recap mean?

3. **Joint Venture:** Sell a percentage of the practice and keep a percentage

   Why would I do this? How do I exit and get paid? What is exit value? What are Put and Call options?

4. **Sellers Note or Preferred Shares**

   Do I get an interest rate? Is it negotiable? How often does it get paid back to me? Does it have a corporate guarantee?

Sell Myself?
Use a Broker?

Practice Sale

5

Employment Agreements

Yours and Associates

6

Tax Mitigation and Strategy

What's taxable now? What tax rate? Is any deferred tax? Who sets Asset Allocation and why is this important?

7

Exit Timing: When do you want to be done?

Do you know what may prevent it?
Will I get all my money by then?
If I leave early what penalties exist?

8

How do I compare an Apple and a Zebra?

insightful.vet

Sell Myself? Use a Broker?

Real Estate Lease/Sale

1

Who will represent you in real estate negotiations?

Local real estate brokers generally do not negotiate leases with corporate buyers. Can you do this? Can your practice broker?

2

What options do you have for real estate after your practice sale?

Sell it, Collect rent checks, REIT (Real Estate Investment Trust)

3

Terms of a Lease

Number of years, Annual rent escalator
Who replaces HVAC, roof, parking lot?
Triple net? Corporate guarantee? Renewal terms?

4

What if they leave:

...and my non-compete prevents me from putting vet back in? Do you understand how all your legal documents tie together?

3

Sales Process and Timelines

insightful.vet

Sale Process and Timelines Roadmap

- Engagement Letter
- Initial Data Collection
- Normalized EBITDA Analysis and Marketing Materials
- "Go to Market"
    - Meetings with Buyers
- Proposals – Letters of Intent
    - Negotiate and Sign
- Detailed Due Diligence / Data Collection
- Legal Documents
- Integration planning including staff communication
- Closing

Sale Process

Engagement Agreement

- Engagement Agreement defines terms of working together
- Upfront retainer or not?
- What is commission based on?
- When do you pay fees to the broker? All at time of sale? Or only when you collect money?

Initial Data Collection

- Financials/accounting data, practice management data, and payroll information
- Can your broker's team remote in and pull the data, saving you time?
- *IF DIY: Will need to collect data and send to MULTIPLE buyers*

Sale Process

Normalizing EBITDA & Marketing Materials

3-4 weeks+

Normalizing EBITDA

- Create a P&L that mirrors what a buyer will encounter
- Add-backs: Remove one-time or personal expenses
- Normalize doctor pay and rent expense
- Review every bill paid in General Ledger to create the best, but defensible, EBITDA

Marketing Materials

- Will your broker (or You if DIY) be creating a marketing packet?
- 6-10 Slide PowerPoint presentation with pictures of location, including ways to grow/improve margins. Spoon-feed the buyer reps!
- Buyers are busy; you'll want to present your data effectively, as they will quickly determine whether to move forward or not.

Sale Process

Launch Practice Into the Buyers’ Market

4-6 weeks

Dating Phase: What to Expect

- Normalized Financial Analysis packet and Marketing packet sent to 30+ buyer groups
- Those who are interested will set up Zoom calls and/or dinners to ‘sell’ their company to you and learn more about you and your goals
- Make time during this process to meet with buyer groups to learn about them and educate them about you
- Marketing materials are the ‘talking points to your story’
- A lot of Q&A. Will your broker do this for you?
- In corporate sales, buyers set the price (bidding). In doctor-to-doctor sales, the seller sets the price.

Sale Process

Receiving and Reviewing Offers and Letters of Intent

1-4 weeks

Merging of Best Culture/Fit with Best Price/Terms

- Analyze and review different offers. Compare apples and zebras.
- Negotiate many business terms and prices, as Pre-LOI is when the seller has leverage.
  - Understanding market terms is key
  - Not just price – employment terms, lease terms, associate DVM compensation and more
- Sign LOI: Move forward with an exclusive relationship with one buyer = enter the engagement phase

Sale Process

Buyers Deep Dive into the Practice

- Quality of Earnings (Q of E) analysis
- More Data Collection: Insurance Policies, Benefits Plans, Employee Manuals, Doctor Contracts, Years of Financial Documents
- A lot of Q&A
- Will your broker manage this for you?

Due Diligence Period

~~45-90 days~~

90- 120+days

Legal

- Hire ONLY an industry expert lawyer- Not a local family attorney.
- Broker should keep attorney and buyer on track with a schedule, and review terms in contracts.

Sale Process

Communication to Staff

- Communication to Associates and Staff
- Do not start until the legal documents are almost final
- **Remove from your vocabulary ‘Sale’ and ‘Corporate’**
- Explain the upside to your team: Benefits, Bonuses, JV for Associates
- Buyer should meet with your team shortly after the announcement to ‘humanize’ the corporation
- Key Processes Installed: Payroll Onboarding, Vendor Accounts, Banking

Integration and Onboarding:

Last 3-4 weeks of Due Diligence Process

Sale Process

Closing

- Anti-climatic
- Done remotely
- Funds wired to your account
- Debts paid off
- ~~6-month~~ 7+ month process from the start

insightful.vet

Thank You!

Do you have any questions?