



VETERINARY NEWSLETTER

September 2015

Mercury Capital Buys Stake in Adelaide Animal Hospitals and VetWest Group

Private equity group Mercury Capital has bought into the above joint group. We are yet to see how this plays out long-term. Normally, private equity groups look to streamline a business balance sheet then dispose of their interest either via an IPO or a stock market listing, or by a trade sale.

With Greencross, NVC, Aussie Paws, Australian Veterinary Owners League and Country Vet Holdings competing for a decreasing number of practices of suitable size, the space has become crowded.

Greencross is the most opaque because it's a listed public company. Its activity is largely based on its Petbarn business. Now that its ability to continue purchasing veterinary practices at a significant rate has been dealt a significant blow by competition, its existing operations will have to be more accountable for performance rather than its veterinary activity being masked by income accretive acquisitions. It will be over a year before we see results from NVC or any of the others, always assuming they go public.

Bestcare Foods Ltd Share Buyback Offer: *The pet food factory that exploded*

Bestcare Foods has offered a ten cents per share buyout to shareholders. Some years after the explosion that blew apart its Gunnedah factory, and following protracted legal proceedings, Bestcare received a financial settlement from the gas supply company and paid a substantial franked dividend to its shareholders. Its remaining capital is slight, but its board is contemplating further legal action against the deed administrators in relation to aspects of the administration and advice given by the administrators over a period of ten years.

Basically, existing shareholders are being offered the choice of tipping money into the company as new capital to fund legal proceedings, or accepting ten cents per share to sell shares and not participate in the possible further legal action.

Synstrat Management Pty Ltd has advised its clients to take the ten cents per share offer, and have no further involvement in Bestcare Foods.

While we regard Bestcare founder and chairman Franz Strobl as being an honourable man, and hence the

offer of ten cents to be fair (and in excess of net tangible asset backing), we have little faith in drawn out legal processes; particularly legal processes against an administrator well versed in legal processes and delaying tactics.

Personal disclosure

Graham Middleton owns Bestcare Foods Ltd shares in his family superannuation fund, which is accepting the ten cents per share buyout offer.

Buyout elections and share transfer forms need to reach the company's nominated address no later than 22 September 2015.

Investment Choices

Even Sydney's king of high-rise apartments, Meriton owner Harry Triguboff, is warning of dangers in the market via Business Spectator, 30 August 2015. Immigration is slowing, causing a slowdown in population growth. Temporary 457 visa workers in mining projects are leaving Australia as projects complete, with more to follow as gas projects come to an end in the next year or so. The Perth housing market has fallen. The Melbourne boom is showing signs of slowing. Sydney's boom may have a bit to go. The rest of Australia's housing markets are stagnant.

Those buying apartments off the plan, often up to two years before completion, often find that the value at completion is \$150,000 less than they contracted to pay! The rent turns out to be less, and the landlord expenses higher than were predicted.

Share buyers need to feel comfortable in examining company balance sheets and their underlying businesses.

Investment by Vets

It is rare for a vet to have a better long-term yielding investment than a veterinary practice, and to have a better long-term property investment than either their long-term home or their practice premises.

About Synstrat Practice Valuations and Accounting Services

Synstrat maintains an active, continuously updating database of veterinary practice benchmarking performance. This is essential in assessing features of a practice. As accountants to many veterinarians, we also witness the purchase and sale agreements for

practices, and this is a critical tool in assessing the market. We have data on practice valuations and practice sales extending over many years. Synstrat also provides valuations for the parties seeking family court endorsed property settlements. Telephone David Collins or Graham Middleton on 03 9843 7777.

Synstrat Publications

For those vets up to the challenge of sustaining a veterinary career, Synstrat's two publications, ***50 Rules for Financial Success as a Veterinary Surgeon*** and ***Buying and Selling Veterinary Practices*** are available free of charge. Email your postal address to annie@synstrat.com.au and additionally, if you wish to receive Synstrat's Veterinary Newsletter via email, please indicate.

Independent Financial Planning and Life Insurance for Vets

Synstrat is experienced at providing financial plans for vets. These take into account veterinary practice profitability and benchmarks, as well as ownership of premises and other family assets and other financial issues. Telephone Graham Middleton, Cameron Darnley or Roger Armitage, each of whom are experienced financial planners, on 03 9843 7777. Cameron can also assist with life insurance. Synstrat Management Pty Ltd holds its own licence. It is not obliged to recommend the products of a particular bank or insurance company.

Starting New Practices

For many vets, the best place to start a practice will be close to a corporate practice with the aim of building long-term relationships with clients. McDonald's and KFC didn't wipe out restaurants. Professional service providers are in the business of personal relationships. Long-term relationships win out over short-term ones. Vets winning clients from corporate practices report that a recurring theme from them is *'We rarely see the same person twice at that place'* or they complain of overt up-selling of a heavy handed nature. Experienced vets owning their own practices will inevitably win clients from corporates and hold onto them long-term.

More Information by Email

We can send out more information to vets than we can fit into the Veterinary Newsletter, but for you to receive that information you need to advise your email address to annie@synstrat.com.au and advise the postal address we currently send your newsletter to.

Greencross CEO Quits

Recently Greencross announced to the stock market that CEO Jeffrey David was stepping down immediately to be replaced by Chief Financial Officer Martin Nicholas. Greencross shares fell by 13.5% by the end of trade on the day of the announcement.

We previously announced that a private equity group had sold out soon after the merger of Mammoth Pet, which owned Petbarn and Animate stores. Mr David became CEO of Greencross after the merger, which in reality was a reverse takeover by the larger Mammoth of Greencross while keeping the Greencross name. Greencross founding CEO, Glenn Richards, also sold a large parcel of shares and moved on.

Announcements of a CEO resigning immediately raise doubt in financial markets as to whether they are being told the full truth. Had the transfer to Martin Nicholas been well-planned, the market would have been informed in advance of the likely succession plan and would not have reacted.

Are You Practicing in the Dark?

If you're practicing in the dark and want accounting services supported by real benchmarking data, and advice from people who speak to vets on a daily basis, then please telephone Graham Middleton or David Collins on 03 9843 7777.

What Vets Need to Know About Practice Valuation

When the government sells off a business like Medibank Private, they don't send valuers to every Medibank office to value the furniture and computers on an item by item basis, and financial markets would have considered it bizarre if they had. Rather the financial calculations underpinning the initial public offer dwelled on financial turnover, profitability and the nature of the business. That is normal.

The fees and profitability of a veterinary practice were produced using the equipment, furniture, fixtures and fittings of the practice. There is no need to create a subjective list of values of second hand equipments, some very small, item by item. Rather, the practice is valued as a veterinary business using proper accounting processes.

This approach saves expensive site visits in most cases. Synstrat produces one report which tells you the value, not a report on the value of equipment and a throwaway line about goodwill value, with another payment to get an explanation of the goodwill value calculations from another organisation. For amplification, speak with David Collins or Graham Middleton on 03 9843 7777.

Visit www.synstrat.com.au for more information on these topics.

THE SYNSTRAT GROUP ARE AUSTRALIA'S MOST EXPERIENCED VETERINARY PRACTICE BUSINESS ADVISERS, ACCOUNTANTS, PRACTICE VALUERS AND LICENCED FINANCIAL ADVISERS
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