



VETERINARY NEWSLETTER

July 2015

Great opportunities for vets

The wave of practice acquisition activity by NVC, Aussie Paws etc entering the market in which Greencross have already approached every veterinary practice of any size in Australia actually creates future opportunities.

The experience of many vet practices is that those near corporate practices do well when clients demand to deal on a basis of a long-term relationship with owners of established practices. This is a client need that corporate practices consistently fail to deliver.

If you're unhappy that the practice you have been working in has just been sold to a corporate, look for premises nearby in which you can start a practice. Better still, if you're between two or more corporate practices that's even better. In the long-term, hard-working vets with good interpersonal skills who are prepared to put in the hours and the hard work will win clients from the corporates. McDonald's and KFC haven't killed off privately-owned restaurants.

If you're proceeding on this journey, have found suitable premises and want experienced accountants and business advisers, then Synstrat Group is happy to provide its services to you and will advise you how to grow your practice more quickly.

I want to be a partner

Good vets working in sound privately-owned practices naturally aspire to partnership. However, partnership is not a right, nor is the fact that you have worked in a practice for some years an entitlement to a discounted price of entry. If your boss paid you appropriately, then you're not entitled to a discount. However, taking the long-term view, an experienced vet working for a hard-working time-poor boss should be alert to the opportunity to relieve the boss of as much work as possible whilst continuing to generate high fees. Instead of badgering your boss about partnership, demonstrate by performance that it would be very difficult to lose you. By all means ask for and expect a periodic pay rise if you're performing well, but treat each pay rise as a new performance line to be outperformed. If you are a fifth or sixth year vet and are receiving, say, \$125,000 to \$135,000 which is considerably more than the average of practitioners at

that level, then the expectation is that you will work considerable extra time and you will take on extra duties, and can be relied upon to do so. If you're in that salary band your objective is to create circumstances where you can easily justify to your boss in a year's time that you are worth more, and so on. There is no guarantee you will be offered partnership, but following this pathway enhances your opportunity.

The Greek Crisis

Greece represents 2% of the Eurozone economy and about 0.3% of the world's economy. It has little trade with Australia. Our main connection is an emotional one, with many Australians having Greek ancestry. Its impact on stock markets appears overdone.

Whether or not Greece exits the Eurozone or has further deferrals is unpredictable, but may be a postponement of an inevitable separation. This is a sad occurrence for a country which, in the ancient world, was the home of Plato and Aristotle, and was recognised as a cradle of civilisation.

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.

National Veterinary Care (NVC) Prospectus

A prospectus has been issued for the offer to the public of 30,000 x \$1 shares. However, the shareholding will take the total shareholding to about 50.7 million shares. Upon listing, NVC will bring together 35 veterinary clinics spread between Victoria (13), Queensland (11), NSW (4), Tasmania (4) and South Australia (3) with average revenue of \$1.5 million. The total consideration for these 35 practices is \$56.8 million, comprising cash of \$45.8 million and shares of \$11 million at the offer price. 30 clinics are being fully acquired, plus a majority interest in the remaining five.

In order to acquire the clinics, NVC has had to raise the price above that paid by Greencross in recent years, and there are also other players in the market. NVC is also taking on a substantial debt burden, albeit that interest rates are low.

Rapid expansion of the number of clinics will be impeded by a combination of competition with other corporate players, a number of equine and mixed animal practices, and a large number of small practices not of a manageable size for a corporate.

In reality, NVC is likely to remain a relatively small player in the overall veterinary market, but given the general feel-good aspect of veterinary services, the share offer is likely to be over-subscribed and initially trade at a modest premium. However, in our view it is quite risky.

The corporate model has two major weaknesses:

1. A vet can only carry out one consultation or one veterinary procedure at a time, and hence the ability to speed up output with investment in capital equipment is limited. This is quite unlike a number of other industries.
2. Whereas professional services are heavily dependent upon building relationships between the service provider and the client, the corporate model creates the problem of non-owners running practices who are less likely to create long-term relationships with clients. This becomes particularly acute as vendor vets' contractual obligations expire and they leave the practices.

In the longer-term as vendor vets reach the expiry of their employment obligations, NVC will have a tendency to become more like the Greencross

veterinary arm, without the corporate branding but with the marketing problem of not having long-term owners who form long-term relationships with long-term clients.

As we have observed periodically, this will create the opportunity for vets to open competing practices and build long-term veterinary practice vet to client relationships. Numerous practices located near Greencross practices have observed to Synstrat that they receive a steady stream of new clients who have been dissatisfied with the way they are treated in a corporatised practice.

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 Bubble Deflates

The Greencross share price has a rolling twelve-month high of \$10.78 but has recently traded at \$5.70. Its ability to acquire practices is being hit hard by other corporates, and its pet barn business faces the ever present possibility of Coles and Woolworths allocating more shelf space to pet products.

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.

Enforceable Exclusion Zones

Vets who write overly large exclusion zones by distance and time for the previous owner of a practice are at risk of the exclusions not being enforceable in the courts. It's best to have a more limited distance and time exclusion which is more likely to be enforceable.

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

For further information on these subjects, please call:

**Graham Middleton BA MBA
or David Collins MEng MBA CA MIET GAICD**

Telephone: 03 9843 7777

Email: vet@synstrat.com.au

Internet: www.synstrat.com.au

Disclaimer

The information contained herein is of a general nature and no specific action should be taken without individual advice. Speak with Synstrat staff as appropriate.

This newsletter was prepared by Synstrat Management Pty Ltd, who is the holder of Australian Financial Services Licence No. 227169