



VETERINARY NEWSLETTER

August 2016

A Veterinary Practice Case Study

This practice is operated by long-term clients of Synstrat and is located in a remote but attractive area of Australia. It's a mixed animal practice and covers a huge area. When Synstrat were first engaged to be the practice accountants and advisers it was a relatively small but efficient practice conducted by a husband and wife veterinary team, with modest staffing and generating good benchmark performance, with solid gross veterinary profit percentage per dollar of fees. It struck us that the husband had a clear view of how a practice should be run and mainly concentrated on large animal work, while his wife mainly looked after small animals but also functioned as a practice administrator, with an eye for administrative detail.

We have watched the practice grow, taking on a third then a fourth partner, but noting how closely aligned the partners are in their views as to where the practice is headed long-term.

The practice has barely deviated from its rate of growth, expanding its services, with the growth rate being remarkably steady year by year but maintaining a careful eye on costs while doing so. It has periodically renovated its practice headquarter building and is currently undergoing a major extension. It reinvests in the business to a sensible degree. It has built into its business model an Australia wide beef cattle consulting arm, and a laboratory.

The practice is located a long way from specialists, and hence virtually all surgery is done internally out of necessity.

We have long regarded it as being a benchmark practice to which we routinely compare other good mixed animal practices.

It's also nice to be able to deal regularly with practice owners who are consistent in their outlook and who provide good veterinary services in a well-run business.

Cenversa Ltd (formerly Cenvet)

Cenversa reported that unaudited revenue was up from \$106 million to \$130 million in 2016. It has updated its reward program for veterinary practice shareholders and paid a modest dividend. It had 255 shareholders at 30 June, mostly veterinarians or their related entities, and recently announced a capital raising via

information memorandum seeking to widen its ownership base.

While there can be no guarantee, it appears likely that Cenversa will grow its shareholder base in a series of steps to the point at which it qualifies for listing on the stock market.

These comments are for interest only. Readers who are not clients of Synstrat Management Pty Ltd should seek their own professional advice.

The Great Health Insurance Extras Con: Ditch extras insurance cover?

Did you know that Medibank Private, Bupa, HCF and nib all retain more than 22% of extras contributions for their own purpose? The four with the lowest retention of premiums for this type of cover: ACA, HPL, Navy Health and Defence Health each retains less than 5%. The four most greedy hold 73.8% of the health insurance market, while the four most generous hold 2.6% of the market. It's definite proof that confusing advertising works.

Source: Australian Dental Association News Bulletin June 2016

We have also heard good reports of Frank and MIF.

Please note that AHM is a subsidiary of Medibank Private. Bupa sends its profits to its UK parent, while nib and Medibank Private are listed for-profit businesses. HCF is a mutual fund but not cost-effective for those with extras cover. Neither is HBF. Comparative websites switch people's funds to get commission and should not be taken seriously.

Graeme Samuel, the former head of the ACCC, is quoted as saying that health insurance policies made mobile telephone contracts seem easy to read! Choice's Tom Godfrey says extras health insurance doesn't make financial sense, and people are better off not having extras cover and paying their own extras bills, which basically cover some parts of dental, optical, physio and chiropractic services. The problem is the bits the health funds choose not to cover or to direct health professionals not to provide. The Private Health Insurance Advisory Commission CEO, an organisation now taken over by the Australian Prudential Regulation Authority, said extras insurance doesn't make sense, but the health funds spend a lot of money advertising it.

The reason they spend a lot of money advertising it is they make a much heavier margin on extras cover by chiselling the patient. Whereas the big funds keep 22 cents in the dollar on extras cover, their margin on hospital cover is much less, often only about 5%.

Medibank Private's computer breakdowns have been publicised recently. Medibank was also publicly castigated for altering benefit schedules, apparently without the knowledge of the members, who had treatment in hospital thinking they were covered for some treatments, only to be told they weren't.

Overwhelmingly, veterinarians will be better off taking hospital cover only and ditching extras entirely. Many will also benefit by switching their hospital cover to one of several small mutual funds, including ACA, HPL, Frank and MIF. Remember, don't be conned by comparative websites, which are pushing people toward solutions which pay them a commission.

The reason Synstrat takes an interest in this subject is that many of our clients are dentists, and dental coverage represents 50% of extras cover.

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 our Vet 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 financial services licence. It is not obliged to recommend the products of a particular bank or insurance company.

Vetshare Limited

Quite a few veterinarians own shares in the company, as I do via my family superannuation fund. It jogged my memory that we hadn't seen the half-year financials for the December half-year, and I contacted the company secretary. I was advised that the accounts for the half-year are with the new auditors. The lateness is a worry, as by now we should be in receipt of the full-year figures. Superannuation funds require up to date information for audit purposes, and shareholders need to know how well the company is travelling. The company is also down to only two directors at present, one of the founding directors/shareholders having resigned, whereas a public company requires a minimum of three. A new appointment may be imminent, but this is a company which has had far too many changes of director. I'd like to think that someday we investors could recover our money, but given the

breakdown in communication there can be no confidence that this is likely.

Graham Middleton

More Information by Email

We periodically 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.

Forfeiture of Deposits on Apartments – Cracks in the Market?

Recent reports indicate that a significant number of off-the-plan purchases of apartments are not being settled, with purchasers forfeiting their 10% deposits. Banks have tightened their lending criteria and demand that the purchasers fund a much greater proportion of the acquisition themselves. Banks are experiencing early symptoms of a market correction, with delinquent loans increasing. There are also reports of foreign buyers, mainly Chinese, having difficulty moving money to Australia and facing tighter credit assessment because some have difficulty in proving their income.

The nature of high-rise development is that periodically the market goes into oversupply because at the point at which it reaches capacity, many building projects have started. The secondary market is usually worse than the off the plan market. If the market cracks, it will have a flow-on effect into other forms of housing.

Veterinary Divorce

A practice valuation from a valuer jointly agreed by both parties assists in achieving speedy and cost efficient settlement. Less than 2% of family law property settlement matters are settled by going to court. Synstrat has provided many valuations for couples that have speeded up the settlement process.

Are You Practicing in the Dark?

If you want accounting services supported by benchmarking data, and advice from people who speak to vets on a daily basis, telephone Graham Middleton or David Collins 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

For further information on these subjects, please call:

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