



Veterinary Practices

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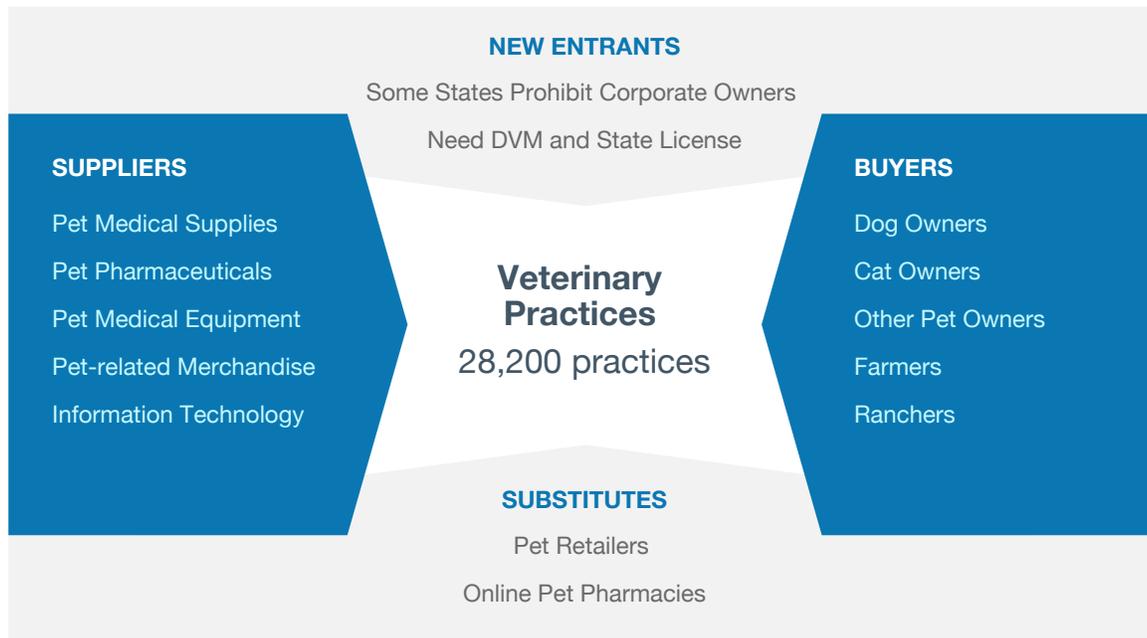
Coronavirus Update

Feb 1, 2022 -- Labor Issues Affect Ability To Provide Service

- Veterinarian clinic owners around the US say that so many staff members are calling out sick because of COVID-19 that they're forced to cut hours and services. Some no longer take new clients, have stopped offering walk-in or emergency care, and are referring pet owners somewhere else. Experts say that clinics were already short-staffed before the pandemic, and many in the veterinarian industry were already leaving because of compassion fatigue and burnout. Problems intensified when pet adoptions increased during the pandemic, leading to more appointments and vet visits.
- People are reluctant to return to the labor force due to pandemic-related factors such as infection risks, infection-related illness, and a lack of affordable childcare, according to some experts. The labor force participation rate, a measure of those working or seeking work against the total population of working age, is 61.6%, according to the US Department of Labor. That is 1.7 percentage points below its pre-pandemic level and represents a decline of just under 3 million people since February 2020. Analysts at multinational commercial and investment bank Barclays say that the decline in labor force participation is being fed almost exclusively by married people who left the labor force in the late summer of 2020 and did not return. "This general profile itself gives us reason to believe that many of the missing workers will gradually transition back to work," the firm's analysts said.
- Dozens of veterinary practice owners and employees have reported an apparent rise in staff abuse by clients. The reports appear on message boards of the Veterinary Information Network, an online community for the profession. Dr. Ray Ramirez, who practices in East Peoria, IL, suspects clients are suffering more and more from "decision fatigue" the longer the pandemic drags on – especially in jurisdictions where COVID-19 cases again are surging and restrictions persist. The social media pages of many practices now include posts begging clients to show more consideration to burned-out staff and threatening to ban them if they become too aggressive, according to the Veterinary Information Network.
- Researchers at the Medical University of South Carolina are conducting clinical trials to help with the fight against COVID-19 and to settle questions surrounding the anti-parasitic medication Ivermectin. The US Food and Drug Administration urges against taking Ivermectin to treat COVID-19 but some COVID patients are advocating for the option to take it in hospitals. The trials are part of a nationwide effort called ACTIV-6, which is aimed at discovering new COVID-19 treatments with already existing drugs.
- Veterinarians are emphasizing the importance of not using the animal formulation of Ivermectin to treat COVID-19. There are human and animal formulations of Ivermectin, according to veterinarian Dr. Christy Fields. The human formulation is used to treat roundworms and lice, while the animal formulation is used to treat worms in mostly sheep, cattle, and horses. She notes that people are taking the animal form of Ivermectin and advises against it. "... that is not safe because it is about ten times more concentrated than the human form of Ivermectin, so the side effects can be very devastating," Fields said. "There are many more calls to poison control recently for overdosing in toxicity with Ivermectin, due to these false claims of using it to treat COVID-19."
- About 77% of veterinarians who responded to a Veterinary Information Network poll said that they were offering curbside service. It was the most widely adopted COVID-19 prevention measure cited by the 2,269 respondents. Some veterinarians describe it as inefficient, impersonal, and putting too much strain on staff, while others said that having less direct interaction with clients allowed for quicker, smoother appointments. Some said they are considering adopting aspects of the new intake model long-term.
- About 32% of pet owners surveyed by Banfield Pet Hospital said that they've reached out to their veterinarian for advice on making the transition back to the workplace easier on their pets. About 50% of C-suite executives surveyed by Banfield Pet Hospital said that they're planning to allow pets in the workplace upon return to the office, and 59% said they'll allow more flexibility for workers wanting to stay remote with their pets.
- New safety measures adopted by veterinary practices are affecting how pets are cared for, and that has contributed to reports of delays and long wait times. "Vet clinics are so overbooked that dogs needing chemo often have to wait five weeks or more, which could impact survival rates," Christina Lopes, CEO of FidoCure, told USA Today. A spike in pet ownership during the pandemic is also contributing to delays.
- Most animals that have tested positive for COVID-19 showed no signs of illness or disease, veterinarians have told CNN. Most nonhuman creatures appear to weather COVID-19 infection with mild symptoms like sniffles and lethargy, if any.
- Some veterinary clinics and hospitals have started charging at least some clients in advance of their appointments. Practice managers say that it has been an effective way to reduce the number of no-shows at their overbooked facilities. Schuykill

Veterinary Hospital in Pottsville, PA, has been asking new clients to pay \$50 upfront for the privilege of booking a visit since mid-July. Midtown Animal Hospital in Sacramento, CA, has been booked so far out that it began limiting new clients to one per day, as well as charging a \$100 deposit on surgeries. "It crushes us when [a client] 'no-shows' and we have such a long waiting list," medical director, Dr. Katie True posted on a message board of the Veterinary Information Network.

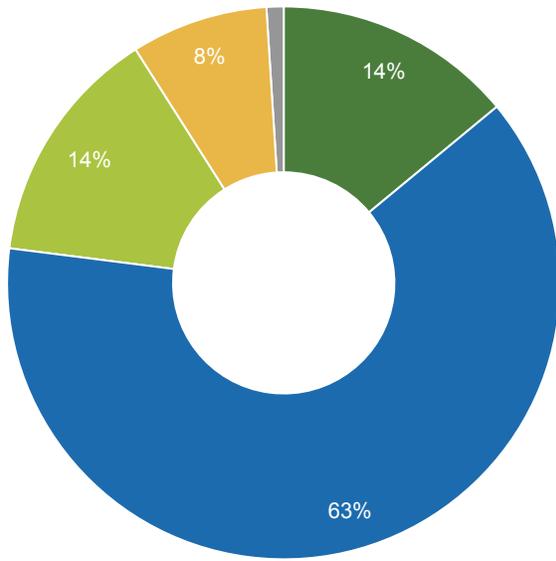
Industry Structure



A typical veterinary practice operates out of a single location, employs 14-15 workers, and generates \$1.5 million in annual revenue.

- The veterinary care industry consists of 28,200 companies that employ 414,200 workers and generate \$44 billion annually.
- Most veterinary practices are small, independent operations - 89% have a single location, and 83% have fewer than 20 workers. Most practices are private practices and owned by a licensed veterinarian.
- About 75% of vets provide care primarily for companion animals; 10.5% care for food animals; and 5.6% care for horses.
- Large companies include VCA, Antech, and Banfield Pet Hospitals (Medical Management International) through PetSmart.

Industry Demographics



- Corporations (14.0%)
- S-Corporations (63.0%)
- Individual Proprietorships (14.0%)
- Partnerships (8.0%)
- Non-profit/Other (1.0%)

Source: US Census Bureau



Female Owned

36.0%



Minority Owned

9.0%



Veteran Owned

8.0%

Source: Census Bureau

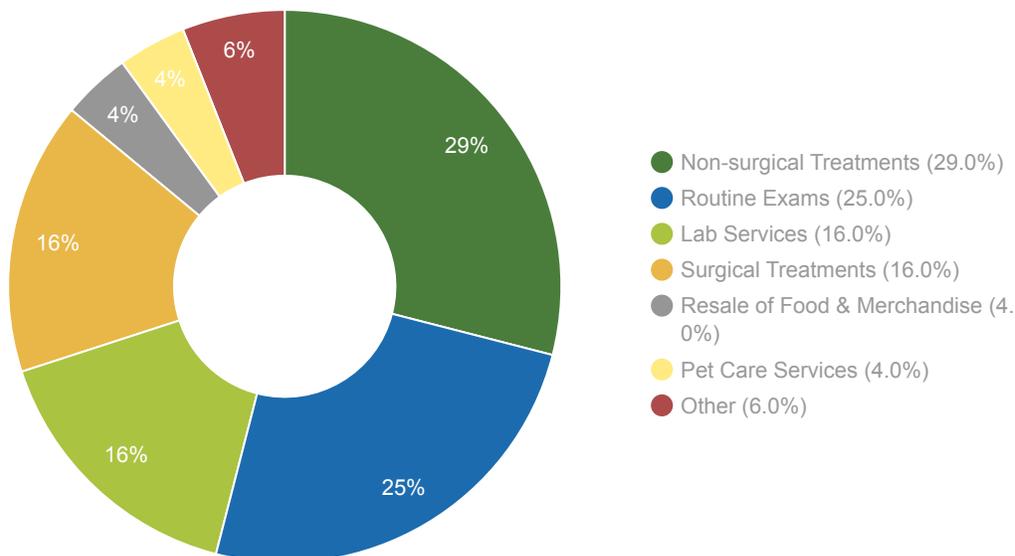
How Firms Operate

Products and Operations

Veterinary practices provide preventative, medical, and surgical care for wide variety of animals.

- Services include routine examinations, surgical and non-surgical care, lab services, and merchandise sales (animal food, medication, etc.). Practices may also provide boarding and grooming services.
- There are two major types of practices: small or companion animal practices and large animal practices.
- The majority of veterinarians treat companion animals – primarily dogs and cats. Other companion animals treated include birds, reptiles, rabbits, rodents, or other small animals kept as pets.
- Large animal vets may specialize in treating livestock (beef or dairy cattle, poultry, swine, sheep, goats) or horses.
- A veterinarian may have between 1,800-2,000 active clients, which generate 3,400-3,700 transactions annually, according to the American Animal Hospital Association (AAHA). The average transaction was about \$191 in 2020, according to iVet360.

Veterinary Practices Revenue



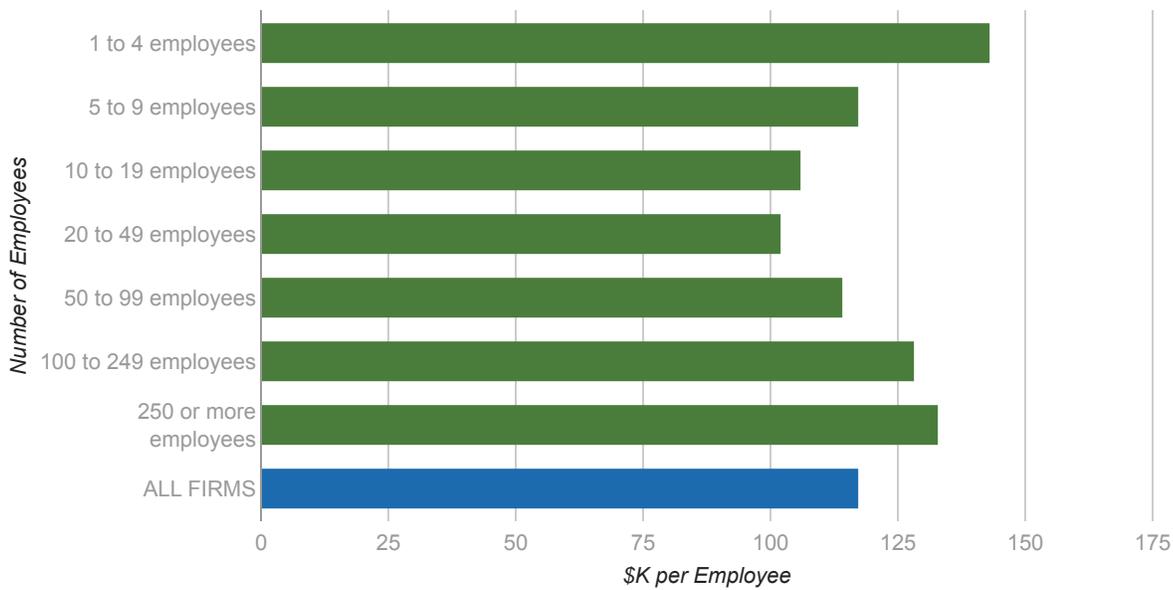
Source: US Census Bureau

Preventative care includes well care visits, or “check-ups,” and vaccinations. Medical care involves diagnosing and treating illnesses and caring for wounds. Surgical care can vary, but includes spaying/neutering, joint replacement, fracture setting, and tumor removal. Veterinary medicine covers a wide range of specialties, including toxicology, anesthesiology, dermatology, emergency care, ophthalmology, nutrition, pathology, radiology, and dentistry.

Veterinary practices typically have exam rooms, waiting rooms, surgical suites, and basic lab and x-ray facilities. Specialty services, such as MRIs or hydrotherapy, may require dedicated areas for treatment and equipment. While vets that serve pets typically offer their services in a clinical setting, vets that serve food animals or horses travel to farms and ranches to provide treatment.

Veterinarians must have a Doctor of Veterinary Medicine (DVM or VMD) from one of 30 colleges in the US that are accredited by the American Veterinary Medical Association (AVMA). Because of the limited number of programs, admission is competitive. Board certification requires a 3-4 year residency. Veterinarians must maintain a state license and fulfill continuing education requirements to practice. Most practices employ full-time veterinary technicians or assistants for support.

Revenue per Employee by Establishment Size



Source: US Census Bureau

Profit Drivers

Increasing Pet Visits Per Veterinarian

Efficient use of veterinarians' time is critical to growing revenue and profit. Practices should target 3,200 pet visits per year for each veterinarian. Vet time can be maximized by: effective scheduling and follow-up to minimize appointment cancellations and "no shows"; use of technicians and assistants to prep animals and handle routine procedures, such as shots; and use of online systems to efficiently record visit details in the exam room.

Increasing Pet Visits Per Active Client

Pet visits at veterinary practices have been declining or flat in recent years and average from 1–2 visits per year. Many pet owners don't understand the need for wellness visits, such as routine exams, and are reluctant to pay for them. As a result, they only bring pets to the vet for required vaccines or when they have a serious illness or injury. Veterinary practices can increase pet visits by consistently communicating the benefits of wellness visits, by making it easy and convenient for owners to schedule appointments, and by offering wellness plans where owners pay a monthly fee for a defined set of routine care services.

Growing Sales Of Supplemental Services

Sales of supplies and other pet care services average 10-15% of veterinary practice revenues. Vets face increased competition for sales of food and supplies from pet stores, grocery stores, and mass merchandisers. They also face competition for pet medications from online pharmacies. Practices facing declining sales of supplies can offer other services to supplement their revenue, such as grooming and boarding services. They can also create frequent buyer programs and discounts for volume purchases to better compete with retailers for food and supplies.

Growing The Number Of Active Patients

Veterinary practices need to continually attract new patients in order to maintain sufficient patient flow. Some practices are using social media and discount services, like Groupon, to advertise their practice to prospective patients. Others are implementing direct marketing programs to "lapsed" owners who have not been in for a visit in the past year. Rewards for clients who refer friends to the practice are another way to increase the number of active patients.

Industry Trends

Trends are affected by the COVID-19 pandemic.

Changes in revenue, employment, business practices, trade and forecasts are occurring rapidly and data reporting by the government lags the changes. We are tracking changes in the “Coronavirus Update” chapter.

Owners Spending On Pet Health Care

Veterinary care accounts for 33.5% of total pet spending, and the majority of practices are experiencing sales growth, according to the AAHA. Total pet industry expenditures continue to grow at a healthy rate of 3-5% annually, reaching \$99 billion in 2020, according to the American Pet Products Association (APPA). Pets have become integral parts of families, and owners are demanding high quality health care. Pet ownership is steady, at about 65-68% of US households.

More Sophisticated Procedures

Pets are living longer and are developing conditions that require increasingly complex treatment plans. Demand for specialists is growing; pets are undergoing procedures, such as the placement of stents and targeted chemotherapy, which were previously received only by humans. Growing acceptance of regenerative medicine has led to increased interest in stem cell therapy to treat osteoarthritis. Clinical trials aim to produce more cutting edge technology and new options for pets and their owners.

Practices Emulate Human Hotels And Hospitals

The “humanization” of pets has affected clinic design, and led vets to offer facilities and services similar to upscale doctors’ offices and hotels. Comfortable waiting areas and bereavement counseling rooms can make the vet experience more comfortable for pet owners. Some vets are improving kennel areas to justify higher boarding costs. As the demand for specialty services grows, practices are expanding to accommodate additional equipment and space for new treatments.

Mobile Practices

With lower start-up costs than traditional land-based practices, mobile practices are appealing to vets right out of school or experienced vets who are looking to downsize their practices. Mobile practices allow vets to make house calls for homebound animals and provide services in non-traditional settings. Special vehicles equipped with exam rooms, surgery facilities, and lab equipment allow vets to extend their reach beyond a physical clinic. A bare-bones mobile practice can cost about \$100,000, while a standard land-based clinic starts at around \$1 million.

Benefits of Remote Services

The Covid-19 pandemic forced the use of telehealth and curbside services, which created challenges, but practices have benefited overall. Curbside service has raised veterinary practice productivity by shifting lengthy in-person conversations in exam rooms between pet owners and vets into quick video or phone chats at the end of the appointment with the vet or a staff member. Firms are also benefiting from drive up service for prescription or pet food pickups. The use of veterinary telehealth services eliminates the need to prepare and clean exam rooms between patient visits and allows vets to see more pets. The need to see more pets per day has grown in importance as pet adoption surged during the pandemic. As distancing requirements ease, veterinary practices will decide whether to proceed with remote services.

Obesity Becoming A Problem

Like children in US households, pets are gaining unhealthy amounts of weight due to high calorie diets and sedentary lifestyles. About 56% of dogs and 60% of cats are considered overweight or obese, according to the Association for Pet Obesity Prevention. Vets may have to alter treatment plans for overweight pets, since extra weight can exacerbate pre-existing conditions. Extra weight also causes chronic, preventable conditions, such as diabetes and arthritis, and can lead to early death.

Employment and Wage Trends

Employment by veterinary practices increases

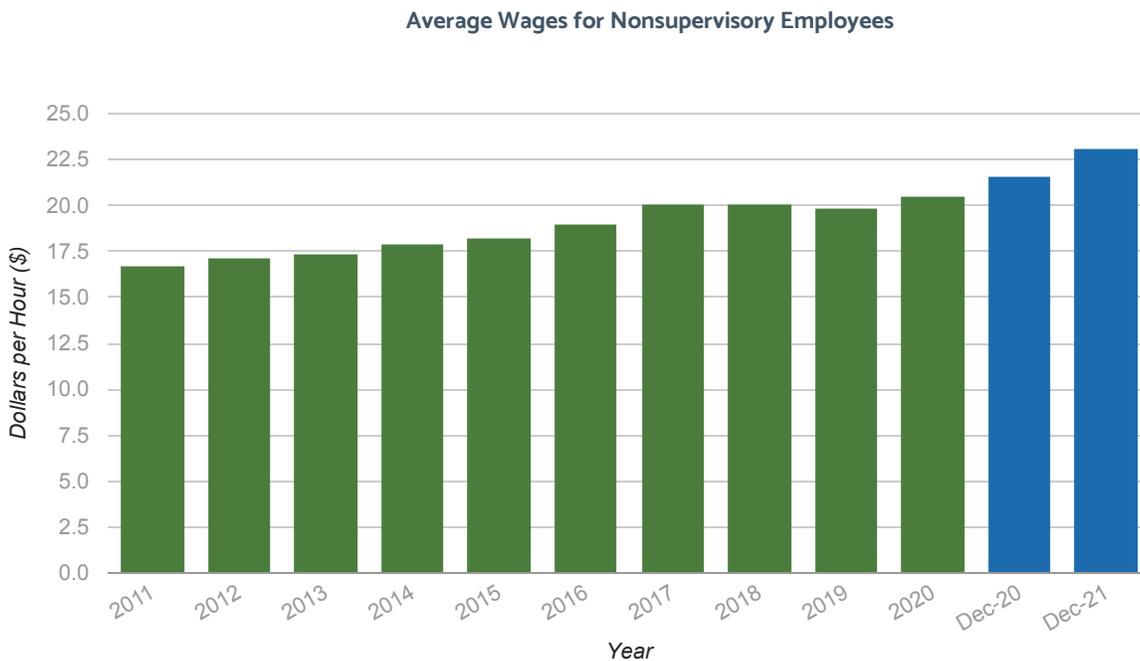
Overall employment by veterinary practices changed 5.6% in December compared to a year ago, according to the latest data from the Bureau of Labor Statistics.



Source: Bureau of Labor Statistics

Wages at veterinary practices rise

Average wages for nonsupervisory employees at veterinary practices were \$23.05 per hour in December, a 7.2% change compared to a year ago.



Source: Bureau of Labor Statistics

Credit Underwriting and Risks



Business Exit Rates:	2.5	Much lower than US average for all businesses
Cyclical Sensitivity:	4.5	Moderate sensitivity
Barriers to Entry:	3.1	Moderate initial capital; high regulatory/technical barriers; very low concentration
External Risk:	3.5	Low external risk
Industry Outlook:	4.2	Higher than GDP; some cyclical risk
Financial Summary:	3.9	High margins; moderate liquidity; low leverage

Key Metrics

METRIC	VALUE	COMPARISON
Performance During 2007–2009 Recession	4.4%	0.0% GDP
Business Exit Rate 2019–2020	6%	9.0% All Industries
Compound Annual Growth Forecast (2020–2025)	7.11%	6.1% GDP
SBA 7(a) Default Rate by Number of Loans (2010–2019)	1.18%	3.82% All Industries
SBA 7(a) Default Rate by Gross Loan Amount (2010–2019)	0.42%	1.21% All Industries

Underwriting Considerations

- How large is the recurring client base?
- Working Capital Lines of Credit are typical to support AR, medical supplies and possible staffing. Review a current AR Aging looking are concentration risk and AR over 90 Days.
- Look at AR and Inventory Day trends and compare to industry averages.
- A Borrowing Base Certificate is recommended for larger lines to track eligible discounted collateral compared to line outstandings.
- Any capital expenditures for equipment expected in the next 2-3 year which would require bank financing?

Industry Risks

Competition For Services

The vast majority of sales in veterinary practices come from medical services. Practices compete with large pet retailers, which use veterinary services to drive store traffic and generate in-store sales. Large pet retailers may offer basic services (such as well care and vaccinations) or specialty care (such as surgical procedures and dental care) at competitive prices. Veterinary practices also compete with certain animal shelters, which carry less overhead and are able to offer spaying and neutering at lower costs. In addition, an increasing number of owners are attempting to minimize costs and turning to websites for free veterinary advice. The end result is that the rate of pet visits to veterinary practices has been declining or flat over the past five years.

Competition For Pet-Related Merchandise

Sensing profit potential, retailers of other products are stocking pet products and using aggressive pricing strategies. Premium pet foods, once the exclusive domain of veterinary practices, are now found in large pet retailers, mass merchandisers, and grocery stores. Retail outlets are more convenient than practices and offer owners one-stop shopping. Veterinary practices also compete with online

pet pharmacies, which offer lower prices on common medications, such as heartworm and flea and tick preventatives. Online sales of pet products reached an estimated 27% of total pet product sales in 2020, according to Packaged Facts and online is expected to become the largest channel by 2024. A majority of vets offer online purchasing, according to a Brakke Consulting Survey.

High Capital Costs

Diagnostic equipment and full laboratory set-ups can require a significant investment. Practices that treat serious or complex health conditions, such as cancer or ligament tears, require expensive equipment. Veterinary practices typically invest in major purchases with caution, since most owners who are willing to pay for basic care may not be willing to pay for expensive surgery or specialized treatment.

Unknown Impact Of Pet Insurance

While the penetration of pet insurance is still extremely low, some practices are wary of its widespread acceptance and the impact an insurance model will have on veterinary medicine. Many vets fear that pet insurance will mirror the human health care insurance industry, with corporations involving themselves in medical decisions, dictating rates, and creating excessive paperwork. While the pet insurance industry is in its infancy, demand is projected to grow due to the increased sophistication of veterinary care and the associated costs.

Shortage Of Food Animal Veterinarians

While the number of veterinary school graduates grows at a steady rate, a shrinking percentage of vets choose to specialize in the care of animals used as livestock. Livestock vets account for less than 6% of veterinarians, according to the American Veterinary Medical Association (AVMA). Treating large animals can be physically demanding and requires vets to make house calls, often in remote locations. Since most patients are on farms, food animal vets typically have practices in rural areas, which can be unattractive to young vets starting their careers.

Company Risks

Lack Of Business Management Skills

Owners of veterinary practices often lack formal training in business and financial management. Many of them view management tasks as a nuisance that takes time away from serving patients. A survey by the American Veterinary Medical Association found that many practice owners don't use financial concepts to manage their businesses. As a result, their practices are less profitable, and they risk running into cash flow surprises and payment problems.

Excess Capacity

Many veterinary practices experience overcapacity in their operations due to flat demand for veterinary services and annual growth of about 4% for new veterinarians entering the market. Veterinary practices that are unable to fill appointments also fail to achieve maximum income. Another result of excess capacity is less need for additional workers in the practice, which leads to fewer opportunities for new grads to enter existing practices. The overcapacity doesn't necessarily equate to an oversupply - many rural communities are underserved. Urban practices that can extend their services to rural clients may be able to achieve higher capacity utilization and revenue.

Keeping Up With Technology

Like human healthcare technology, animal healthcare technology is advancing at a rapid pace. Practices may struggle to keep up with technological changes and can face dilemmas in purchasing "state-of-the-art" equipment that potentially could be obsolete in a few years. Small practices or practices with declining client bases may have difficulty financing purchases of the most sophisticated technology.

Retaining Veterinary Technicians

Veterinary technicians play a critical role in veterinary medicine by taking on less complex tasks so vets can focus on diagnosing and

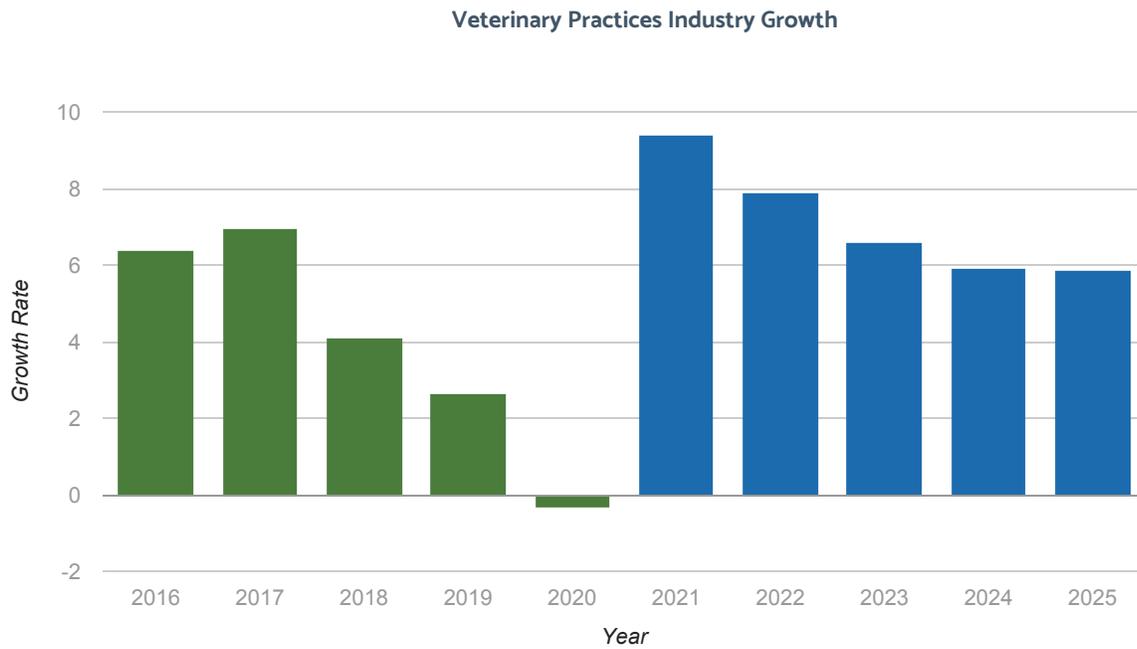
treating pet problems. But low pay, long hours, and difficult working conditions can result in high turnover among this type of employee. Insufficient staffing often results in overworked technicians and job dissatisfaction. Frequent euthanasia procedures can be emotionally draining.

Industry Forecast

Sales for the US veterinary practices industry are forecast to grow at a 7.11% compounded annual rate from 2020 to 2025, greater than the growth of the overall economy.

Vertical IQ forecasts are based on the Inforum inter-industry economic model of the US economy. Inforum forecasts were prepared by the Interindustry Economic Research Fund, Inc.

Last Update: August 2021



Source: Interindustry Economic Research Fund, Inc.

Working Capital

Sell and invoice

Word of mouth and referrals are important sources of new clients, although many practices also advertise through local media, such as print and radio. Most veterinary practices require payment in the form of cash, check, or credit card at the time of service. Practices may extend credit through payment plans or refer an owner to a third party financier for expensive procedures. Most vets avoid discounting fees.

Collect

Practices generally do not deal with pet insurance providers over payment issues because policies currently call for reimbursement directly to owners. Collection periods run about 4 to 5 days and receivables average 3% of total assets.

Manage Cash

Veterinary practices depend on a solid base of established clients and a steady flow of new clients to maintain strong cash flow. Practices may experience some seasonal sales because pets spend more time outdoors during warm weather, making them more susceptible to illness, parasites, or injury.

Pay

Payroll is the single largest expense and accounts for about 27-29% of sales. Compensation may include cash bonuses for non-owner vets and ancillary staff. Other significant expenses include rent, drugs, and medical supplies.

Report

Most veterinary practices have implemented practice management software to manage operations and medical records. Important practice metrics include: the number of active patients and new patients; transactions and visits per active patient; revenue per transaction; and revenue per visit. After-tax net profit averages 10-11% of sales.

Cash Management Challenges

Pet Owners Balk At High Fees

As veterinary treatments have become more sophisticated and complex, fees have been rising faster than inflation. High fees have created “sticker shock” for some owners, who have responded by deferring visits and declining recommended procedures. Veterinary care visits were down during the recent recession, even though the pet population increased. Owners are turning to the Internet for pet health advice, rather than visiting their vet, and postponing “wellness,” visits, which they consider non-critical. Such reduced demand from current patients can create cash flow issues for some practices.

Long Payback On New Technologies

To offer improved care and remain competitive, veterinary practices are investing in advanced technology, such as digital x-ray machines and lasers. However, many patients are reluctant to pay for expensive treatments, which can limit the use of this new equipment. As a result, it can take years for incremental treatment revenues to match equipment costs, creating short-term cash flow issues for practices.

Capital Financing

Start-up costs for a small animal veterinary practice run about \$1 million. Major assets that require capital investment include land, buildings, medical equipment, and practice management information systems. Basic medical equipment for exams and routine procedures include exam tables, scales for weighing animals, vital signs monitors, and instrument sterilizers.

Providing in-house support for lab services, diagnostic imaging, or specialty procedures can require significant capital investment, so veterinary practices may choose to outsource certain services or lease equipment. However, in-house services can generate an incremental revenue stream, provide faster results, and help practices provide a higher level of care. Expanding into a specialty area can also require capital to fund additional space, equipment, and remodeling expenses. While advances in veterinary medicine have improved care options, practices must assess the risk of obsolescence when purchasing the newest technology.

Software especially designed for veterinary practices is critical to efficient practice management and good medical records management. A practice management system, including associated hardware and peripherals, can require an investment of \$30,000 or more. The majority of practices use veterinary software, and more than half of practices switch software providers at least once, according to Veterinary Practice News.

Veterinarians may choose to purchase an existing practice. Since many veterinarians are not strong business managers, an existing practice may have untapped profit potential. The average practice is sold for 70% of annual gross revenue, with few selling above 80% and many selling in the 40% range.

Due to a long history of steady financial performance, veterinary practices are generally considered good credit risks. For vets fresh out of school or establishing a new practice, good personal credit is important to securing financing. Financing is available from banks, third-party finance companies, and equipment vendors. Equipment loans are typically for 5 to 15 years, while loans for facility expansions or remodeling have terms of 7 to 15 years. Veterinary practices can provide an excellent opportunity to provide term loans with SBA guarantees for financing real estate and equipment. Financing of facilities is appropriate for term loans under the SBA 504 debenture program.

Examples of Equipment Purchases



Veterinary Exam Table

\$3,000 - \$5,000

Table with a hydraulic or electric lift to raise animals for examinations. May also include a digital scale for weighing the animal.



Veterinary Surgery Table

\$2,000 - \$4,000

Adjustable-height table that's used for performing surgeries on animals.



Stainless Steel Cages

\$10,000 - \$15,000

Cages for holding animals as they recover from surgery or await procedures.



Digital X-Ray

\$40,000 - \$80,000

Integrated system for creating internal images of an animal and displaying them on a computer screen.



Anesthesia Machine

\$1,500 - \$6,000

Machine for administering anesthesia in gas form to an animal; includes a vaporizer and an oxygen flow control.



IV Infusion Pump

\$1,500 - \$2,000

Device for administering fluids intravenously to animals.



Stainless Steel Grooming Tub

\$2,500 - \$6,000

Large tub, often with walk-up stairs, for bathing and grooming animals.



Mobile Veterinary Clinic

\$100,000 or more

Truck outfitted with lab equipment for performing routine veterinary procedures.

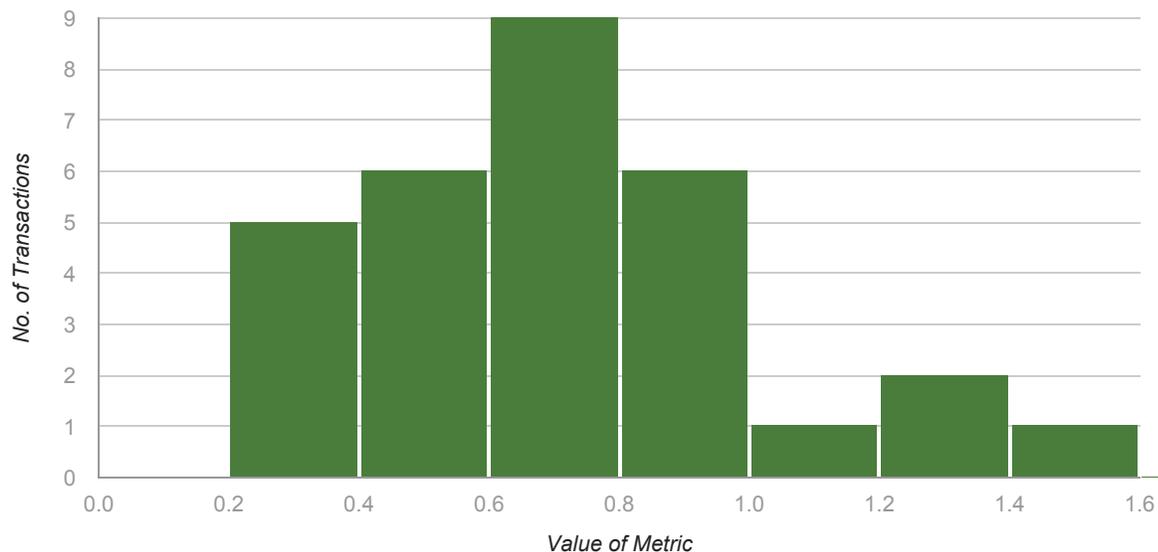
Business Valuation

This data on business valuations is supplied by DealStats, an online database with the most complete financial details on nearly 36,000 acquired companies. These companies are mostly small and medium-sized private firms.

Summary Valuation Data for Veterinary Practices

	MEDIAN	MEAN	# TRANSACTIONS	DATES
Price to Net Sales	0.73	0.72	30	02/01/2004–07/09/2019
Price to Gross Profits	0.85	0.9	28	02/01/2004–07/09/2019
Price to EBITDA	5.58	9.8	24	02/01/2004–07/09/2019
Price to EBIT	5.73	13.27	27	02/01/2004–07/09/2019

Click on the metric below to see a distribution of transactions for the industry:



Source: DealStats

Count: 30

Min: 0.26

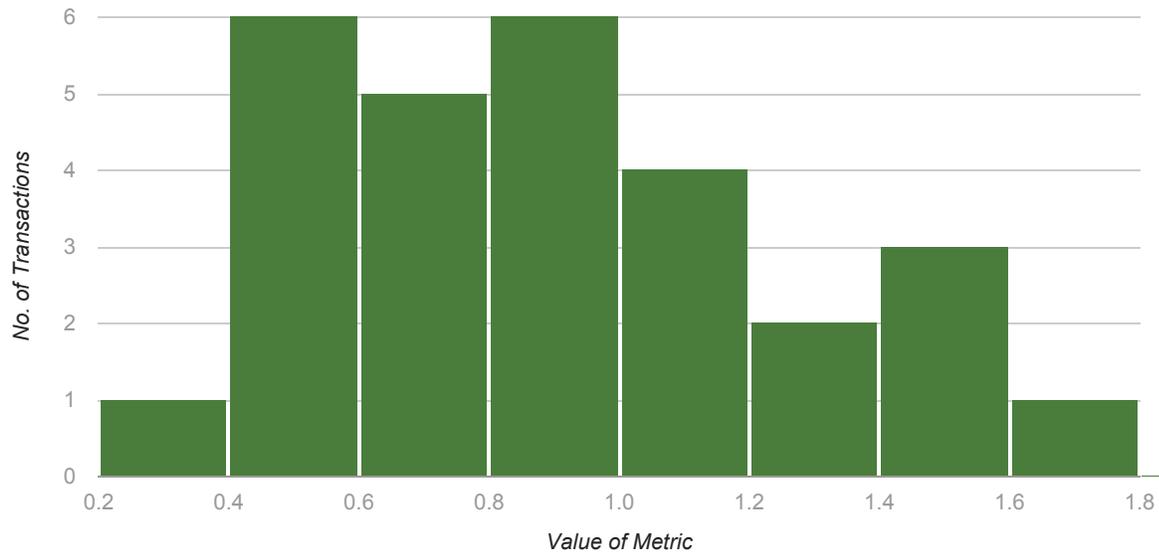
Max: 1.41

Mean: 0.72

Median: 0.73

Price to Sales = Selling Price/Net Sales

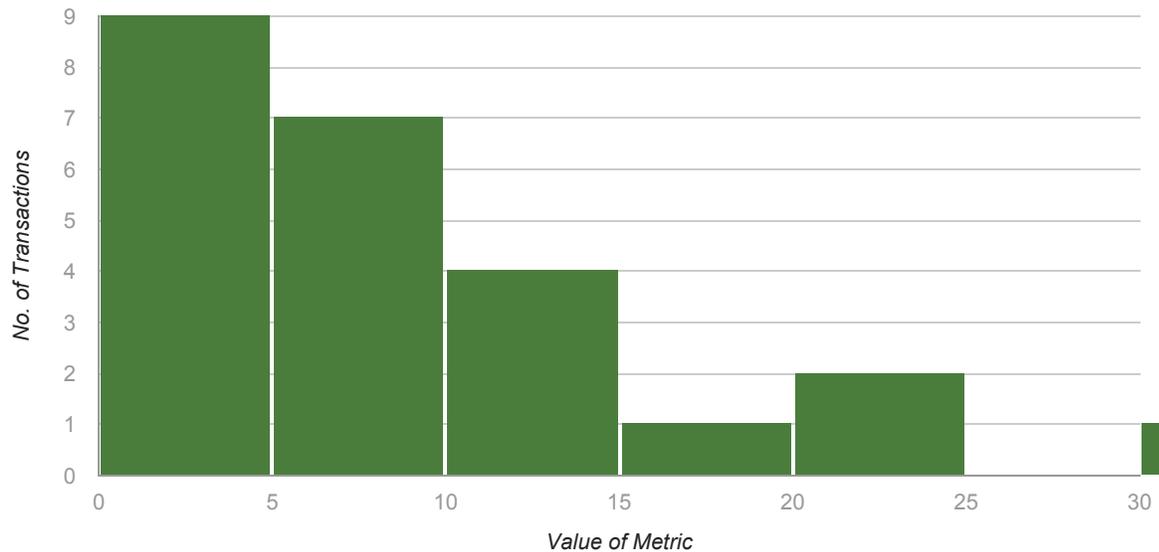
Date range: 02/01/2004 - 07/09/2019



Source: DealStats

Count: 28 **Min:** 0.29 **Max:** 1.66 **Mean:** 0.9 **Median:** 0.85

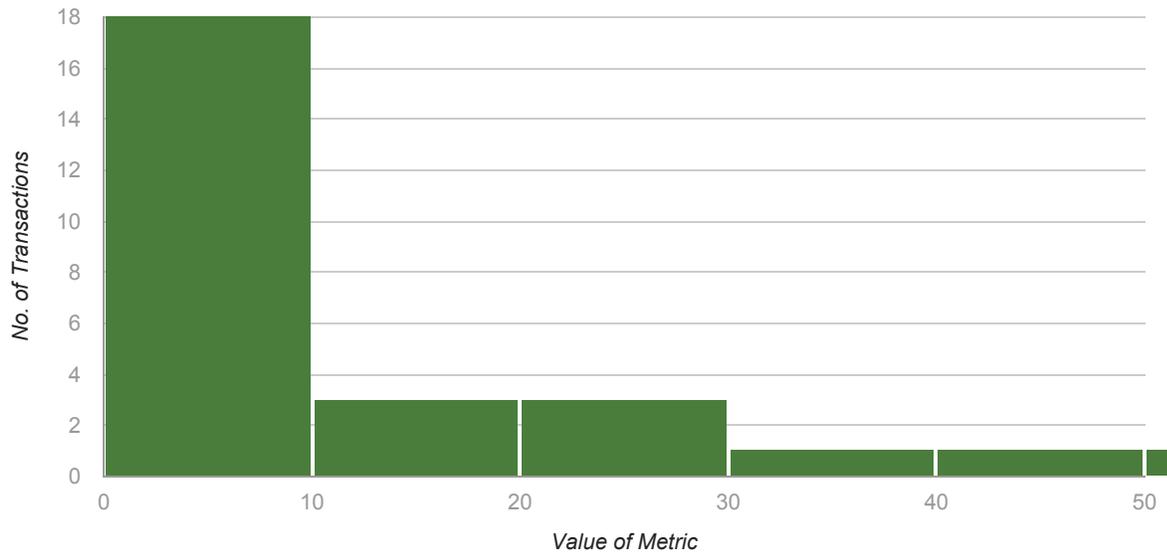
Price to Gross Profit = Selling Price/Gross Profit
Date range: 02/01/2004 - 07/09/2019



Source: DealStats

Count: 24 **Min:** 1.82 **Max:** 49.22 **Mean:** 9.8 **Median:** 5.58

Price to EBITDA = Selling Price/Operating Profit + Depreciation & Amortization
Date range: 02/01/2004 - 07/09/2019



Source: DealStats

Count: 27

Min: 1.14

Max: 95.64

Mean: 13.27

Median: 5.73

Price to EBIT = Selling Price/Operating Profit

Date range: 02/01/2004 - 07/09/2019

Selling Price, also known as MVIC (Market Value of Invested Capital) is the total consideration paid to the seller and includes any cash, notes and/or securities that were used as a form of payment plus any interest-bearing liabilities assumed by the buyer. The MVIC price includes the noncomplete value and the assumption of interest-bearing liabilities and excludes (1) the real estate value and (2) any earnouts (because they have not yet been earned, and they may not be earned) and (3) the employment/consulting agreement values. In an Asset Sale, the assumption is that all or substantially all operating assets are transferred in the sale. In an Asset Sale, the MVIC may or may not include all current assets, non-current assets and current liabilities (liabilities are typically not transferred in an asset sale).

Source: DealStats 2019 (Portland, OR; Business Valuation Resources LLC). Used with permission. DealStats is available at <https://www.bvresources.com/learn/dealstats>

Financial Benchmarks

The following financial benchmark data is based on annual financial statements submitted by member institutions of the Risk Management Association from Q2 of the first year listed through Q1 of the following year.

Financial Ratios (Veterinary Practices, Industry-wide)

MEASURE	2018-19	2019-20	2020-21
Current Ratio [?]	1.31	1.02	3.37
Quick Ratio [?]	.87	.57	2.56
Days Inventory [?]	22.46	20.61	54.6
Days Receivables [?]	5	4	4
Days Payables [?]	17.28	28.52	21.93
Pre-tax Return on Revenue [?]	5.25%	11.72%	8.08%
Pre-tax Return on Assets [?]	13.81%	43.42%	19.08%
Pre-tax Return on Net Worth [?]	35.33%	115.10%	41.57%
Interest Coverage [?]	9.91	24.69	10.77
Current Liabilities to Net Worth [?]	.51	.70	.26
Long Term Liabilities to Net Worth [?]	1.05	0.95	0.92
Total Liabilities to Net Worth [?]	1.56	1.65	1.18
<i>Number of Firms Analyzed</i>	<i>523</i>	<i>308</i>	<i>347</i>

Income Statement (Veterinary Practices, Industry-wide)

ITEM	2018-19	2019-20	2020-21
Revenue	100.0%	100.0%	100.0%
Cost of Sales	28.13%	29.21%	26.75%
Gross Margin	71.87%	70.79%	73.25%
Officers Compensation	5.46%	5.72%	5.03%
Salaries-Wages	21.06%	20.97%	25.75%
Rent	2.85%	2.96%	2.71%
Taxes Paid	2.56%	2.67%	2.76%
Advertising	1.25%	1.38%	1.54%
Benefits-Pensions	2.97%	2.94%	3.38%
<i>Number of Firms Analyzed</i>	<i>523</i>	<i>308</i>	<i>347</i>

ITEM	2018-19	2019-20	2020-21
Repairs	0.63%	0.66%	0.49%
Bad Debt	0.1%	0.11%	0.17%
Other SG&A Expenses	18.06%	18.11%	15.04%
EBITDA	16.93%	15.27%	16.39%
Amortization-Depreciation	3.7%	3.23%	3.25%
Operating Expenses	58.64%	58.75%	60.12%
Operating Income	13.23%	12.04%	13.13%
Interest Expense	2.34%	1.82%	1.92%
Other Income	-0.05%	-0.2%	-1.91%
Pre-tax Net Profit	10.94%	10.42%	13.12%
Income Tax	0.17%	0.12%	-0.12%
After Tax Net Profit	10.77%	10.3%	13.24%
<i>Number of Firms Analyzed</i>	523	308	347

Balance Sheet (Veterinary Practices, Industry-wide)

ASSETS	2018-19	2019-20	2020-21
Cash	27.66%	28.26%	39.83%
Receivables	2.63%	3.14%	1.62%
Inventory	7.92%	8.74%	6.37%
Other Current Assets	2.29%	2.4%	2.56%
Total Current Assets	40.5%	42.54%	50.39%
Net Fixed Assets	32.45%	30.35%	22.45%
Net Intangible Assets	19.06%	17.22%	20.07%
Other Non-Current Assets	7.99%	9.89%	7.1%
<i>Total Assets</i>	100.0%	100.0%	100.0%
LIABILITIES			
Accounts Payable	5.44%	5.45%	4.07%
Loans/Notes Payable	16.08%	13.21%	12.84%
Other Current Liabilities	9.54%	9.65%	7.88%
<i>Number of Firms Analyzed</i>	523	308	347

LIABILITIES

Total Current Liabilities	31.06%	28.31%	24.79%
Total Long Term Liabilities	48.02%	48.66%	52.63%
Total Liabilities	79.08%	76.97%	77.42%
Net Worth	20.92%	23.02%	22.58%
Total Liabilities & Net Worth	100.0%	100.0%	100.0%
<i>Number of Firms Analyzed</i>	523	308	347

Vertical IQ financial benchmark data is based on data provided by the Risk Management Association (RMA) and Powerlytics, Inc. RMA's Annual Statement Studies provide comparative industry financial benchmarks based on financial statements of small and medium business clients of RMA's member institutions. Additional detail on income statement line items is provided using Powerlytics financial benchmarks, which are based on reporting submitted to the IRS. Additional detail on these data sources can be found at [RMA](#) and [Powerlytics](#).

Bank Product Usage

Top Bank Products Used by Veterinary Practices

The following table provides the frequency of bank product usage by Veterinary Practices with less than \$10 million in annual revenue. It is provided by Barlow Research Associates, Inc., the premier market research firm in the financial services industry.

BANK PRODUCT	% OF FIRMS
Business checking account services	100.0
Point-of-sale credit card processing	67.0
Automated clearing house services (ACH)	64.0
Business savings or money market account	62.0
Wire transfer services	60.0
Overdraft protection for business checking	60.0
Business credit card issued in your company's name (Visa, MasterCard, Amex, etc.)	56.0
Business debit card or business check card	48.0
SBA loans	45.0
Electronic payments initiated through the Internet (Bill Payment)	41.0
Credit lines secured by receivables, inventory, property or other assets	37.0
Payroll processing	36.0
Term loans or equipment financing (one year +)	35.0
Commercial real estate mortgage (company occupied building)	35.0
Commercial real estate mortgage	35.0
Company sponsored 401(k), SEP, pension or profit sharing plan	35.0
Equipment leasing	33.0
Money market mutual funds or short-term investments	32.0
Certificates of deposit	32.0
Unsecured short-term loans or working capital line of credit (less than one year)	28.0
Commercial real estate mortgage (investment property)	20.0
Remote deposit capture (scanning checks at your office or by mobile device for electronic deposit)	14.0
Account reconciliation processing (ARP)	14.0
International (foreign exchange, import/export letters of credit)	10.0
Accounts receivable collection (lockbox)	8.0
Overnight investment or sweep accounts	3.0

Barlow's Small Business Banking program is a multi-client research program sponsored by leading banks. Each quarter, a stratified random sample of businesses throughout the United States with sales between \$100,000 to \$10 million compiled from an independent list provider are invited to participate in a comprehensive banking survey of over 100 questions. The results measure channel adoption, bank satisfaction, brand power, account management, service quality, business product usage and the selling abilities of leading providers. The results in this chapter are calculated directly from the business product usage section and represent usage for the average small business (\$100K-\$10MM).

For more information on Barlow's banking research, go to <http://www.barlowresearch.com/>

Quarterly Insight

1st Quarter 2022

Mergers Increase Industry Consolidation

Merger activity among veterinary hospitals in 2021 raised the market share of corporate consolidators to almost 50% of all companion animal practice revenue, according to animal-health firm Brakke Consulting. Between 800 and 1,000 independent companion animal practices were acquired by corporate consolidators in 2021. "That's a bit of an uptick from 2020, when we estimate somewhere between 700 and 800 practices were acquired by corporations," Brakke senior consultant John Volk said. About 25% of all companion animal practices are now owned by corporate consolidators. That accounts for at least 40%, and perhaps closer to 50% of all client visits, he explained, because corporations tend to own larger practices than independents, including a majority of specialist referral centers.

4th Quarter 2021

E-commerce Firm Alters Strategy In Battle For Prescription Revenue

Veterinary clinics that sell over-the-counter and prescription medications to pet owners directly have faced increasing competition from pet food and pet supply e-commerce firm Chewy's aggressive push into the multibillion-dollar market for pet meds, but Chewy is adapting to increasing resistance from veterinarians. Chewy announced in September a new marketplace platform that lets veterinarians operate their own online pharmacy stores on Chewy's website. Vets can set their own prices, create preapproved prescriptions and earn revenue through the platform. Chewy acts as a wholesaler to the vet and charges for fulfillment services but doesn't charge other fixed fees or earn a cut of the vet's revenue. Veterinary clinics accounted for 72% of overall prescription and OTC pet medication sales in 2020, according to Packaged Facts. Prescriptions make up roughly a quarter of a veterinary practice's revenue, according to investment and advisory firm Needham & Co., which means a substantial number of clinics depend on that channel to keep their businesses afloat.

3rd Quarter 2021

California Launches Disaster Emergency Program

A new emergency program designed to help rescue animals and livestock during disasters has been launched in California. The California Veterinary Emergency Team is a program that will support and train government agencies, individuals, and organizations to help domestic animals and livestock during emergencies. The teams will be managed by the UC Davis School of Veterinary Medicine. "Our goal is a team that is ready to respond anywhere in the state with a mobile command center, a clinic if necessary, and the veterinarians, equipment, and medicine to get the job done," said state Senator Steve Glazer, who authored the bill that launched the program. Volunteers will be recruited between disasters, and veterinarian students will be trained on practices in shelter and emergency medicine.

2nd Quarter 2021

Access to Vaccinations Expands

All 50 states have either opened coronavirus vaccinations to everyone eligible under US Food and Drug Administration emergency use authorizations, or have announced when they plan to do so. Clinics are expanding opportunities to receive shots without appointments. The White House told states in early May that coronavirus vaccine doses which they choose not to order will become available to other states – the most significant shift in domestic vaccine distribution since President Biden took office. For all states currently vaccinating anyone 16 and older, people ages 16 or 17 can only receive a Pfizer/BioNTech vaccine, as it is the only option authorized for use in that population so far. The vaccines made by Moderna and Johnson & Johnson are authorized for use in adults 18 and older.

1st Quarter 2021

Competition for Vaccines is Intense

The Massachusetts Veterinary Medical Association is circulating a Change.org petition, arguing that veterinary practice employees should be included in Phase 2 of the state's vaccination plan. Stakeholders in other industries are competing to move ahead in the queue as well, and the jostling intensified after Governor Charles Baker announced that residents age 65 and older had been bumped to the front of Phase 2, behind people 75 and older, and ahead of some essential workers, including K-12 teachers. Dr. Arthur Caplan, director of the division of medical ethics at the New York University Grossman School of Medicine, said the system was bound to frustrate, given the novel nature of the disease and unreliable supply of the vaccines. "A fair system requires you to know how much vaccine you've got, where it is, how do people find out about it, can they get to it, who's most likely to be at risk of dying, and who's mostly likely to be exposed. And then you have to be there [with the vaccines]. But we can't answer five out of six of those questions," Caplan said. "So we can't be totally fair."

4th Quarter 2020

Unemployment Rate High for Pet Owners

About 13% of pet owners reported being unemployed or furloughed in September, according to an American Pet Products Association survey. The figure exceeds considerably the overall US unemployment rate of 7.9% for the month. Another 15% of recent respondents said their hours or wages have been reduced. Veterinary practice revenue may decline if pet owners cancel or delay services due to insufficient income.

3rd Quarter 2020

"Unprecedented" Demand Surge

Veterinary industry revenue was up an estimated 18% year over year in July, according to VetSuccess, which tracks financial data from 2,800 clinics. The American Animal Hospital Association said that growth is evident beyond the general practitioner's office. Emergency vet offices said that they are getting overflow from general practice clinics that have told pet owners that they are booked up for weeks. The New York Times called the growth atypical, as more is spent on medical care for pets when the economy is strong and more disposable income is available. Max Rinaldi, medical director at Emergency Veterinary Hospital in Springfield, OR, calls their caseload "unprecedented. I've been doing this for eight years and I've never seen it like this." He estimates that the hospital's caseload is up 40% over this time last year, and he credits the boom to an overflow from general practices: "As they become more stretched, things that aren't necessarily huge emergencies, but still need to be seen within a reasonable period of time, end up coming to our door."

2nd Quarter 2020

Shelter-at-home Orders Boost Demand

Demand for veterinary services is rising due in part to shelter-at-home orders that result in more free time, according to USA Today. Many who are spending more time with their pets are taking them to veterinarians for issues that had previously gone unnoticed. Demand is also rising because pet owners have more time to take care of chronic issues. Some of the medical issues that veterinarians are seeing, however, are related to increasing pet anxiety, injuries, and fights caused by the COVID-19 quarantine. "Dogs and cats are getting into more trouble," said emergency veterinarian Anne Browne. "They're not necessarily confined so they're having more things that they can do. People's animals are actually getting in more disagreements."

Industry Terms

AAHA

American Animal Hospital Association – Veterinary association focused exclusively on practices that treat companion animals. AAHA represents nearly 50,000 veterinary providers in the US and Canada.

AVMA

American Veterinary Medical Association: Trade association for veterinarians with over 95,000 members. The AVMA also accredits veterinary schools.

Bovine

Having to do with cows.

Companion Animal

Dogs, cats, birds, reptiles, rabbits, rodents, or other small animals that are kept as pets.

DVM or VMD

Doctor of Veterinary Medicine.

Equine

Having to do with horses.

Livestock

Animals grown for food, including beef or dairy cattle, poultry, swine, sheep, and goats.

Web Links

[Veterinary Practice News](#)

News, trends, and statistics.

[dvm360](#)

News, trends, and statistics.

[American Animal Hospital Association](#)

News, trends, statistics through Trends magazine.

[American Veterinary Medical Association](#)

News, trends, and statistics from veterinarians trade association.

Related Profiles

Animal Production

NAICS: 112 SIC: 021x, 0241, 025x, 027x

Pet & Animal Food Manufacturers

NAICS: 3111 SIC: 2047, 2048

Pet & Pet Supplies Stores

NAICS: 453910 SIC: 5149, 5999

Pet Care Services

NAICS: 812910 SIC: 0752

Niche Profiles

Veterinary Emergency Services

NAICS: 541940 SIC: 0742

Veterinary Oncology Practices

NAICS: 541940 SIC: 0742

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