

VETERINARY PRACTICE GOODWILL VALUATION REPORT ⁽¹⁾
Company version.

*“A practice is worth what someone is prepared to pay –
unless its value is worth more to the seller to retain it.”*

We use maintainable profit methodology as a basis to value the goodwill of a practice

The maintainable profit is the excess normal profit, calculated by making estimating expected organic growth combined with adjustments to the practice costs giving a true trading/profitability picture of the practice.

What you need to undertake the valuation-

From the latest full years accounts you will need

- The director's annual remuneration (inc. Pensions and other benefits)
- All finance costs- loan, bank interest etc
- Depreciation/amortisation of any assets
- Annual costs of family members who do not contribute and will not remain after the sale.⁽²⁾
- Any non-recurring costs in the last financial year.(e.g., exceptional roof replacement etc.)

You will also need to decide on an estimated % for the current year's organic sales growth (This can be based on the actual growth shown in the months post that last full financial year.)

The report gives a guide to the potential sale value of your goodwill to a corporate practice. The Sale to a non-corporate could well be 10-25% less.

The report is based upon the last full years accounts and the estimated growth over the following 12 months. To produce a more accurate projected value the sales growth should be by a combination of increased prices combined with organic growth. (To obtain accurate results the growth should not include an additional practice)

When estimating the increased sales, the algorithm makes an allowance for reduced costs and therefore a higher level of profitability.

Terminology & Definitions

Depreciation/ amortisation is a gradual reduction in the recorded value of a certain assets over its useful life The rate is decided by your accountant.

VPV - Vet practice values

PMP – Projected Maintainable Profit

ETO - Estimated Turnover

GW. - Goodwill

Using the Vet Practice Values (VPV) algorithm we can produce an estimate of the company's goodwill value.

With an incorporated practice:

The final value of the sale will include the value of net assets, the goodwill usually being the largest asset. The value of these is represented by the share value.

The Algorithm considers certain additional Key value drivers when calculating the estimated goodwill for a veterinary practice based upon the maintainable profit.

- Average annual turnover per (unit) veterinary surgeon.
- The Practice size - multi vet practices tend to be more valuable than a single practitioner clinic.
- Location. Practices located in areas that are attractive to professional staff will usually command higher valuations.
- Practice Sector. Small animal veterinary clinics are generally more marketable than large animal practices. As a result, small animal vet practice valuations are typically higher.
- Asset base. A practice with significant levels and quality of equipment and other fixtures are likely to command a higher valuation.
- Market performance. Practices with high Profit : Turnover ratio. As a result, their valuations are usually above the industry norm.
- Please remember this is only an approximate guide and other factors may still arise that could reduce or increase the practices goodwill value.- see later section.

The algorithm utilises all these factors as well as the company P&L accounts when calculating the goodwill valuation range

On completion you will receive a basic On-screen report- the full detailed report will follow by email.

Sample

Dear **Jo**,

Thank you for using the valuation tool. Please note this is only a guide to the potential value of the goodwill of your veterinary practice, based upon the information you have given. For a more extensive report, see our Premier Valuation

Company Name (optional):	ABC vets Ltd
Practice Name (optional):	ABC vets
Practice sector:	Purely Small Animal
Approx. size of practice in full time vets:	5
Date of last financial year end:	31/03/2022
Turnover in that year (£):	£1,240,000
Net Profit (£):	£221,000
For the current year-	
Estimated growth:	5%
Estimated turnover:	£1,302,000
Estimated Net Profit:	£252,000

From the information provided, we estimate the value of your practice goodwill to be between (£1,626,100 and £1,858,400).

Many other additional financial and commercial factors extracted from the accounts could impact on the final goodwill figure. A percentage of practices could have values above or below the range shown. We have found that approximately 75% of practices with a similar profitability to your company or business will fall within that range. The remaining 25% will be above or below the range.

Specimen

Goodwill Valuation Range Report - Limited Company Version

Practice Type: Limited Company
Full Name: Jo Bloggs
Confidential contact number (optional): 08939216174
Confidential Email (for reports): jo@thevba.com
Postcode (used for regional variations): TH455LA
Company Name: ABC vets Ltd
Practice Name: ABC vets
Practice sector: Purely Small Animal

Date of last financial year end. 30/03/2022
Date report run. 30/06/2022
Approx. size of practice in full time vets: 5
Date of last financial year end: 31/03/22
Turnover in that year (£): £1,240,000
Net Profit (£): £221,000
Expected growth in the current year: 5%
Practice Catchment Area: Affluent & increasing prosperity

Practice equipment level: Good range of equipment
Actual annual turnover per unit vet: £277,320
Ratio of PMP Projected TO : 0.1782

Directors' total remuneration from accounts (£): £7,000
State the number of working Veterinary Directors: 1
State all finance costs (£): £9,000
State all Depreciation and Amortisation shown (£): £19,000
State total costs of all family members
not required or replaced post acquisition (£): £7,300
Replacement salaries @ market salaries
for family members who leave: £0
Estimated costs of family/directors additional
benefits: £0
State any non-recurring costs (£): £3,000
Estimated turnover (£): £1,302,000
Estimated Net Profit: £252,000
Ratio of PMP Projected TO : 0.1784
Practice projected profitability. 17.84%
Projected maintainable profit (£): £232,300

Goodwill Valuation Range Report- Limited Company

Goodwill Calculation - Date undertaken

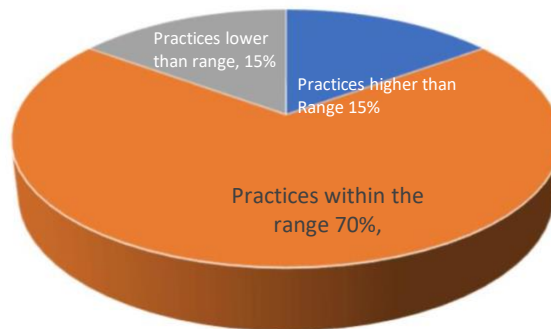
30/05/2022

With a projected turnover of £1,302,000 and a PMP of £232,3000 this is the range of goodwill values for different performance levels.

Below average	(a)	Up to - £929,200
Average	(b)	£1,161,500 - £1,391,477
Good	(c)	£1,393,800 - £1,623,777
Excellent	(d)	£1,626,100 - £1,858,400

From the details provided we estimate your veterinary business goodwill to a **corporate buyer** should falls into range (d), Excellent, giving the goodwill to be between £1,626,100 and £1,858,400

Valuation Range results



Many small businesses are managed in a "lifestyle" manner where costs are incurred which, if run on a fully commercial basis, would not be incurred by the purchaser.

E.g., This would often include employing a family member at a cost not strictly at market rate, or running more vehicles than are necessary (e.g., Family), utilising telephone systems etc. . There may be many more examples appropriate to the way in which you operate your business.

In these instances, an adjustment should be made to the profit to replace these non-market rate costs with the costs a non-related owner would incur, if at all. Because of the multiple variations between different practice's, we cannot identify all of these in our calculations, with the result there may be some undervaluation.

The seller must feel confident of any assumptions they make when inputting information.

Factors that can have an effect on the final value obtained.

- Very high level of turnover for say a 2-vet practice - this could be due to the hours worked by the vets which may be excessive and unable to be matched by the buyer.
- The dependency of income being generated on one particular vet, may result in a reduction in the value- the result of this will depend upon negotiations with the preferred buyer.
- Lack of willingness of the owners/directors to continue - can result in a lower value.
- Willingness of the professional staff to remain and provide continuity for the purchaser.
- Errors on entries. If you enter a lower figure, say under the “depreciation and amortisation” than is shown in the final accounts the result could be a undervaluation.
- Including use of practice vehicles by family- unless adjusted would effectively decrease the profit.
- Similarly Including family members who are only nominally employed will decrease the profit
- Failing to allow for properties used by the practice being charged at their market rental price.

Factors such as above can result in quite marked variations of the final PMP and hence the goodwill.

Property Rents

It is essential to utilise **market rents** for all properties used by the company that are owned by the directors.

To ensure you get the maximum amount for your company, it must be presented in a professional manner and portrayed with a narrative that describes the full details of the practice.

Similarly marketing the company and negotiating the sale should be undertaken by a professional who is experienced in these matters.

If you wish to discuss your valuation please contact us, on info@thevba.com