

18 Tips for a Healthy Hospital Transaction

There has been a recent increase in the buying/selling activity in the veterinary hospital market. This increase is being driven by consolidators, retiring practitioners, and associate transitions to ownership.

There are many factors to consider when beginning the process of buying or selling a hospital, along with a variety of terms and methodologies when evaluating the value of a hospital. Increasing your familiarity with this vital vocabulary will help ensure you get the most from your transaction.

COMMONLY USED VALUATION APPROACHES

1. The income approach uses normalized earnings for one or more periods, multiplied by a risk rate (multiple of earnings).
2. The market approach uses market, public company, or private transactions to determine multiples.
3. The asset approach uses net asset value or liquidation value (i.e., assets less liabilities).

Seeking the advice of not just a credentialed professional, but a credentialed professional with specific veterinary experience, is essential during the process of buying or selling a hospital. Having an experienced negotiator is invaluable in determining a hospital's purchase or selling price.



GLOSSARY OF 7 USEFUL TERMS

There are many terms to which hospital owners will be exposed during the valuation process. Having a general understanding of these terms will help facilitate the process.

1. **Normalized Earnings:** hospital's earnings, allowing for adjustments for owner compensation, owner family members on the payroll, owner fringe benefits and discretionary expenses, owner-occupied rent, depreciation and amortization, nonrecurring expenses, and interest
2. **Capitalization of Earnings:** earnings used for valuation, based on most recent year, a simple or weighted average
3. **Simple Average:** gives equal weight to each year included in the valuation
4. **Weighted Average:** assigns different weights to each year included in a valuation before averaging
5. **Minority Discount:** discount applied to a purchase or sale to account for the value of noncontrolling ownership
6. **Fair Market Value:** cash or cash equivalent price at which a property would change hands between the buyer and the seller, assuming neither party is compelled to buy or sell and both parties have reasonable knowledge of the relevant facts (Rev. Rul. 59-60)
7. **Goodwill:** purchase price above value of assets in the purchase