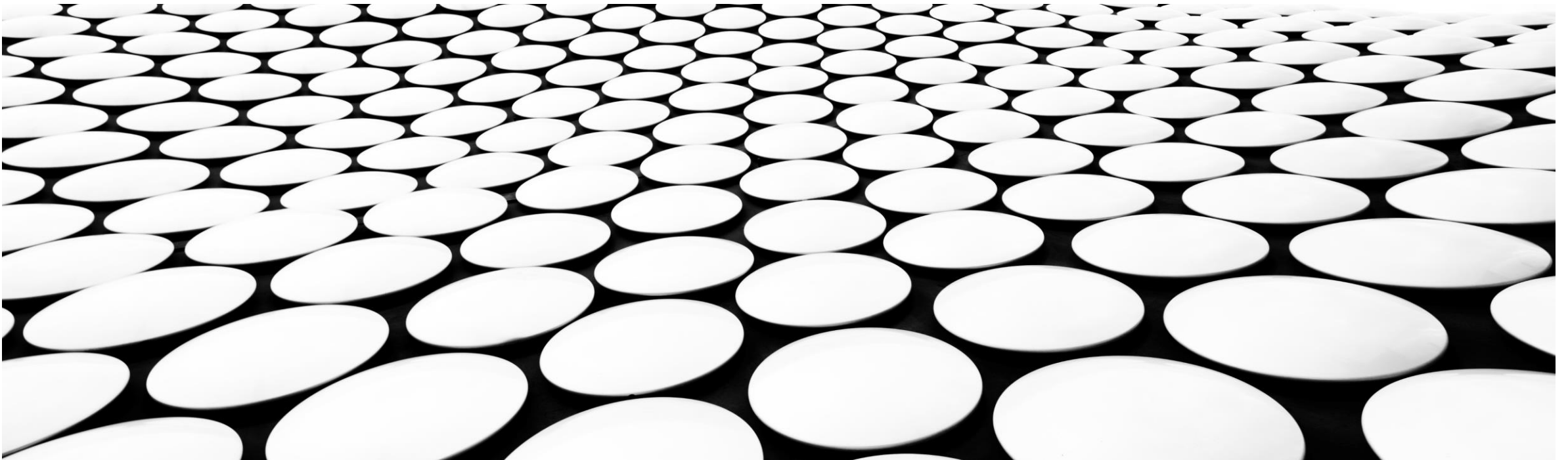


VETERINARY SALE TRENDS - CANADA



ABOUT ME

- Business Focused Background
 - Business Administration with Economics Minor – Graduated with Distinction
 - CPA
 - CBV
 - Broker
- Work I do – Vet Help Consulting
 - Sole Focus on Veterinary Industry since 2009
 - Veterinary Practice Valuations
 - Brokering Practices
 - Feasibility Studies
 - Run a Successful Practice in Thunder Bay
- Why?
 - Parents Were Vets



AGENDA

- How is Value Determined
- Crucial Trends in the Market
- Impact on Practice Risk and Profitability
- Pitfalls
- Ask Questions Throughout – This Discussion is for You



HOW VALUE PERCEIVED

- Rule of Thumb – Recipe for Mistakes
 - Multiple of Revenue
 - Multiple on EBITDA (Earnings Before Interest, Tax, Depreciation and Amortization)
- Why These Don't Work
 - Not all practices are the same
 - EBITDA is NOT “Objective”
 - A High Multiple that includes Earn-Outs is NOT the same



THE PROFIT/CASH FLOW METHOD



- What are you buying when you buy a practice?
 - The right to enjoy the future profits/cash flows of that business
- What's the right value of those future cash flows?
 - It's a function of the risk of the investment. Just like any investment it's a risk vs return tradeoff
- Very Simplified:
 - $\text{Expected Yearly Cash Flow} \div \text{Expected Rate of Return}$

CRUCIAL TRENDS EFFECTING VETERINARY ACQUISITIONS

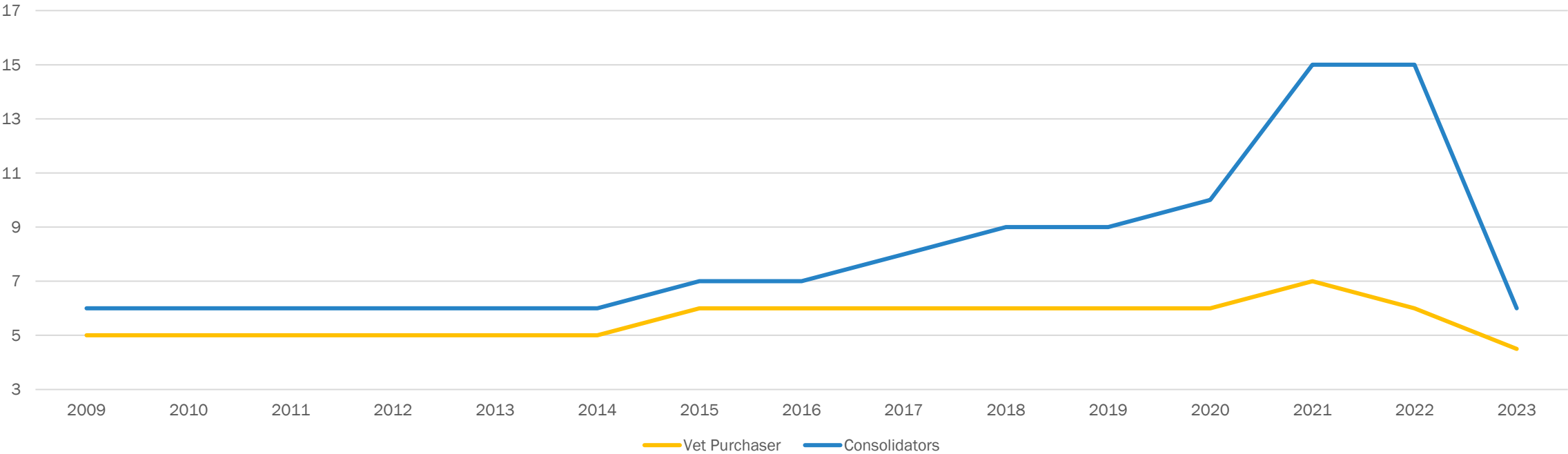


- Heyday of Sales and Value 2021 and 2022
 - These Days are Gone
- Increased Pet Ownership During COVID
- Interest Rate Increases (then Decreases)
- Shortage of Vets
 - Higher Wages
 - More Demand than Supply

VETERINARY MULTIPLES OVER TIME



Multiples Over Time



PROFITABILITY AND RISK

- Inflation
 - Good Excuse to Raise Prices
- Shortage of Vets (Greatest Risk to Owners)
 - Practices that Maintained Veterinary Coverage saw Double Digit Revenue Growth
 - Profitability Increased in Most Practices
 - Risk Profile Changes
 - Solo Vet Practices have no Increased Risk
 - Multivet Practices have Higher Profitability Risk (even if no vets lost)
- Lease Terms – Demolition/Termination, Cancel on Sale
- Companion Animal Significantly Different from Mixed, Large Animal, Specialty, and Exotics



VETERINARIAN PURCHASERS



- Was a Seller's Market from Before 2009 to 2022
- Fewer Purchasers Now
 - Macro-economic– Vets are Notoriously Risk Adverse
 - Higher Wages Temporarily Placating Associates
 - Consolidators Buying Fewer

CONSOLIDATORS



■ THEN...

- Target Practices of 2+ Vets but Made Exceptions
- Require Seller to Remain One Year
- Multiples in 2021 and 2022
 - As High as 18X
 - Even higher for specific practices
 - Purchased Dozens each
- Strategy to Purchase, Roll Up, Divest
- Hands-Off
- Espoused Ethics

■ NOW....

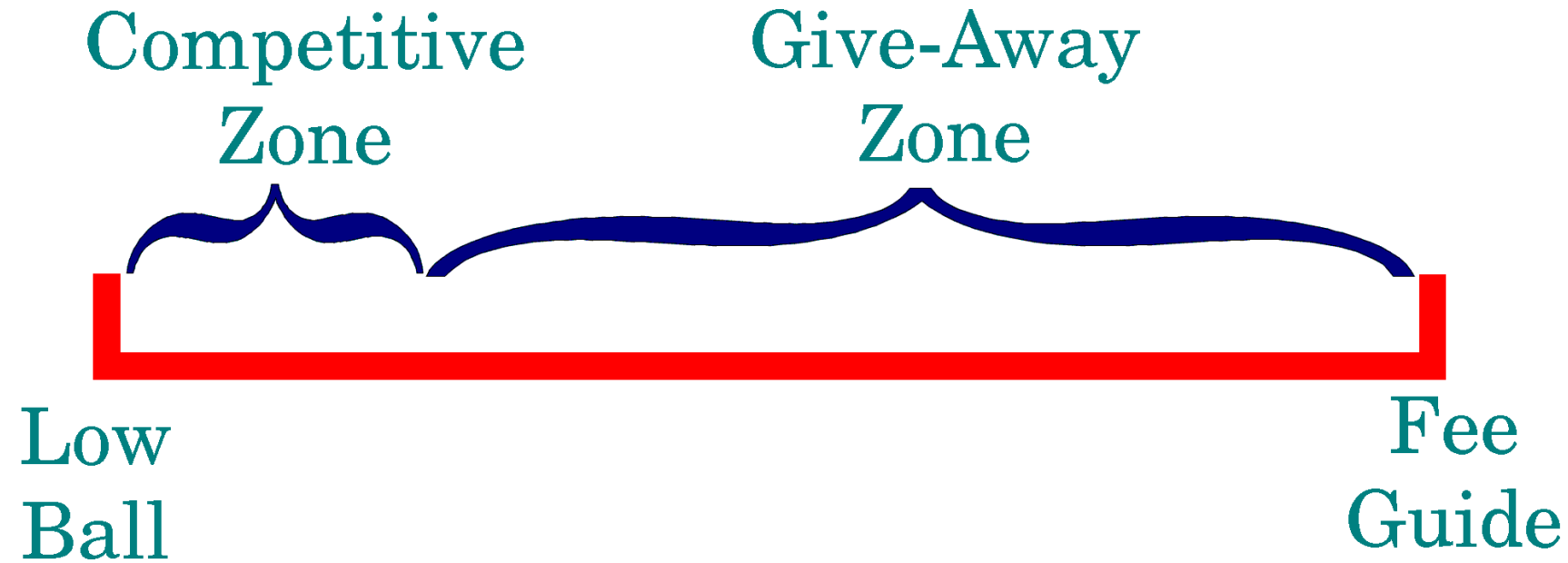
- Target Practices of 2+ Vets
- Require Seller to Remain 3+ Years
- Multiples
 - A Couple Turns higher than Solo Vets
 - Move Towards Earn-Outs
- Very Few Purchases
- Move Towards Earn-Outs
- Looking to Standardize and Cost Cut – Software, Supplies, Staff
- Ethics less Emphasized

PITFALLS

- Comparing Yourself to the Practice Down the Street that Sold
 - Not all Practices are the Same
 - People Exaggerate or Do Not Quite Understand
- No Succession Planning – Preferably 2-3 Years Prior to Sale
 - Especially Important for Non-Urban Practices
 - Tax Planning
 - Veterinary Production Continuation
 - Address Profitability Issues and Clean up Financials
- Lease Issues
 - Demo/Relocation Clauses
 - Cancellation on Assignment
 - Landlord Personality
- Major Capital Expenditures without Proper Review
- Pricing



PRICING - THE GIVE-AWAY



WHEN LOWER PRICES WORKS



- No doubt that some practices are quite profitable charging lower prices
- Needs commitment to low costs and service offerings
 - You can't lower prices and offer excellent service and expect good profitability.
 - The two strategies for competition are to compete on “price” or “differentiation”. Very few businesses across any industry can compete on both partially and succeed.
- Should be done at time of practice inception
 - Manage client expectations
 - Manage all the fixed costs

WHEN IT DOESN'T WORK

- When client expectations already fixed on better service
- When fixed costs can't be adjusted accordingly
- When the owner is committed to offering anything above base service
-
- Most of the time



BLAKE'S CONTACT INFORMATION

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Tax Considerations



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Pre-Sale Planning

- From incorporation/commencing business to when looking to sell your practice
- Taxes saved/deferred in two main ways:
 - #1 Lifetime capital gains exemption – lifetime limit in 2025 of \$1,250,000 and scheduled to resume indexing in 2026. Tax savings of \$334,500 and increasing.
 - #2 Proper structuring of:
 - Operating business and real estate
 - Multiple vet clinics/practices
 - Investments/personal use property inside a VPC



Sale Planning #1

- From when looking to sell your practice
- Little to no restructuring required if proactive pre-sale planning has been completed (as noted in previous slide)
- Otherwise, should review restructuring opportunities based on situation/circumstances

Sale Planning #2

- Additional Tax Opportunities:
 - There may be an opportunity to defer some of the capital gain on the sale of the shares of your VPC through a tax-deferred intercorporate dividend
 - If taking back equity of the purchaser, there may be an opportunity to defer capital gains tax through planning
 - If not receiving all the proceeds on closing, there may be an opportunity to defer some of the capital gains tax over a maximum period of 5 years
 - If earnouts are received on the sale, there may be an opportunity to preserve capital gains treatment through filing an election with the CRA
 - Payment of any tax-free capital dividends and recovery of any refundable taxes before the sale
 - Sale to children may now qualify for the capital gains exemption with proper planning and meeting certain post-sale conditions



Why Financial Planning Matters

- Selling your practice may be the **largest financial event of your life**
- Sale proceeds are central to **funding retirement and leaving a legacy**
- Planning provides **clarity and confidence** before making key decisions
- Enables **greater tax efficiency** — both at sale and on an ongoing basis



Phases of Financial Planning

1. Years Leading Up to the Sale

2. At the Time of the Sale

3. Years Following the Sale



Preparing in the Years Leading Up to the Sale

- **Define Your Goals:** Retirement timing, lifestyle spending, travel, gifting, major purchases
- **Build a Net Worth Statement:** Highlight practice valuation, tax considerations, and non-liquid assets
- **Complete a Comprehensive Plan:** Outcomes can be bucketed into “Goldilocks” scenarios and used as a reference point in sale negotiations



At the Time of Sale

- **Strategic Deployment of Proceeds**
 - Immediate needs: debt repayment, big purchases, tax
 - Investment plan: balance cash flow with long-term growth
 - Optimize accounts for tax efficiency: RRSP, TFSA, corporate accounts, trusts, spousal loans
- **Update Your Estate Plan**
 - Ensure wills/POAs reflect new circumstances
 - Explore tax-minimization strategies for estate settlement

The Years Following the Sale

- Maintain a **coordinated team**: accounting, financial planning, investment management
- **Review and update** your financial plan regularly
- **Adapt strategies** as goals and markets evolve



Role of Insurance

- **Risk Management:** Life, disability, critical illness protection
- **Tax-Efficient Estate Planning:** Permanent corporate life insurance
- **Estate Liquidity:** Provide cash to fund taxes on retained assets



Key Takeaways

- **Start early** – ideally 2–3 years before selling
- **Model post-sale lifestyle** before negotiating terms of a sale
- **Integrate advice** across tax, financial planning, and investment management on an ongoing basis



Questions?



Your Success Is Our Business

Thank You!



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