

## **Why you should sell to a millennial associate, why millennials should buy and how to get it done**

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Transitioning into retirement for practice owners can be daunting when it comes to selling your practice. Many practice owners don't have an exit strategy, so corporate buy out is the fastest way to retire for many and often includes a large cash offer up front free from any funding stipulations. Long term benefits to clients, existing staff, associates and the community are lost with many corporate buy outs as "practice flipping" becomes more and more prominent throughout the country. The following sections detail the benefits to selling to a millennial, why millennials should buy and the process to finalize the transaction.

### *PRACTICE OWNERS*

#### **Why Sell to a Millennial?**

Every practice owner needs to sell eventually, so why choose a millennial over corporate? Practice owners who transition their practice to the next generation of veterinary ownership can reap great fulfillment personally and professionally. While changes will happen with any ownership transfer, they can be progressive and positive with careful planning and vision on the owner's part. With the heavy debt load on today's young veterinarians, ownership is a great way to build long term wealth. If protecting your staff and associates, helping the next generation of veterinarians, continuing your practice's good will and protecting the legacy you built are important aspects of your career fulfillment, consider making a 2-5 year plan for finding the right young veterinarian to buy your practice.

#### **Find an Interested Associate and Mentor**

Not all veterinarians are cut out to be owners. Focus on associates or potential buys who have the curiosity and drive to know more about ownership. If you have associates who may be interested, focus on long term training and exposure to what practice ownership looks like. Don't hide your financials from your associate. Many young veterinarians are averse to owning because they don't have the business training from school. Develop young associates by encouraging them to ask questions and take part in the aspects of ownership such as hiring, participating in staff annual reviews, learning about employment law, understanding how depreciation and estimated tax payments work, etc. You can develop a formal training program for a mentee who is interested in learning a lot, or you can make these casual learning experiences as they come up in day to day practice. Practice getting comfortable sharing your wealth of ownership and management knowledge and wisdom.

#### **Get a Practice Manager**

If you don't already have a phenomenal practice manager, get one. Your practice manager can help young associates with questions and guidance as well as support and confidence that they can take on the ownership role without feeling overwhelmed. Practice managers who know the business side can serve as valuable mentors to potential new owners, and if you plan to sell to a non-associate, having a practice manager will increase the value of your practice by providing a smoother transition to the new owner.

#### **Market Your Practice Toward Millennial Buyers**

If you don't have a current associate who may want to buy your practice, market your practice toward millennial buyers. Minor cosmetic updates such as paint, furniture and décor will make your practice more inviting to younger veterinarians who can "visualize" owning the place and taking pride in it. When advertising, include your desire to mentor the new owner and help with the transition after purchase. Get creative with the affordability including owner financing and partnership buy in opportunities. If the idea of helping the next generation of veterinarians succeed and build wealth is important to you, brainstorm ideas of how to help them overcome the challenges of the process. Starting early and having a flexible plan is key to making this a successful business transaction.

### *MILLENNIALS INTERESTED IN PRACTICE OWNERSHIP*

#### **Think Long-term**

The onus of transitioning a practice's ownership does not fall solely on the current owner. Millennial veterinarians need to think long term about the future of their career over the next 35-45 years as well as the future of our great profession. Where do you want to be in 10 or 20 years? How much do you want to be making by then? What are you doing to fund your retirement NOW? Know that humans are extremely capable of growing, evolving and learning to fill the ever-changing roles of our lives. I liken practice ownership to having a baby: it's expensive, challenging, frustrating, tiring but oh so rewarding. If practice ownership excites you in the tiniest way, explore what that looks like and know that there are people, both professionals and mentors, to help along the way.

### **Visualize the Benefits**

Though practice ownership comes with its own share of headaches, it comes with many more freedoms and benefits. In addition to the obvious benefit of making more money, as practice owner you have much more control over your working environment and schedule. Though it requires a lot of hard work, owners enjoy the flexibility to change the schedule and take more time off than an associate. As long as you have trained your staff properly, your clinic can and will function without you for two weeks! Relief coverage and associates allow owners the time off to be able to take vacations, pursue hobbies and activities outside of their career and also give back to the community. This doesn't insulate you from the occasional staffing crisis that may arise during your time away, but developing your support staff and empowering them to problem solve and make sound decisions in your absence can provide you with much more time off than you would ever have as an associate.

Another perk as owner is deciding who you work with. You have complete control over what personality types fill your practice. You also have the (often difficult) privilege of being able to terminate employees who underperform or undermine your practice's values and ethics. You also have the ability to train your staff to perform medical and client services in the ways that align with your values. You get to practice medicine at the level you want! You also hold the final decision on new equipment purchases, protocols and processes to implement in your practice.

Though retirement is rarely on the minds of young workers, it is important to make a long term plan for savings and investments. While your practice is an investment itself and will likely be worth a lot of money when you sell it down the road, don't forget the benefits of business ownership when it comes to retirement accounts. IRAs cap annual contributions at \$5,500 (\$6,500 if you are 50 or older) and those filing single with over \$122,000 in taxable income are phased out from contributing completely at \$137,000 (\$193,000 to \$203,000 if filing married). Even those contributing the full \$5,500 annually, starting at age 26 and retiring at 67 would save just over \$1,000,000 by 2060 assuming a 6% return rate. Unfortunately, \$1,000,000 in the year 2060 will be about \$363,000 in today's dollars (assuming 2.5% annual inflation). As a practice owner, you have access to not only tax-free investment into your practice, but also retirement savings plans. These include SIMPLE IRAs, SEP IRAs and Self-Employed 401(k). The details of these plans are explained here: <https://www.fidelity.com/viewpoints/retirement/retirement-plan-small-business>

### **Let's Talk Taxes**

Taxes – the most dreaded word in the English language? Taxes can be daunting, but as I like to say, “For every tax action, there is an equal (or even better?) and opposite tax reaction.” The money you pay for your practice, your staff, your equipment, your repairs, and even your business taxes are all tax deductible. Every dollar you invest in your practice is tax-free. At the current 2019 Federal Income Tax brackets, those making more than \$84,200 unmarried or \$168,400 married will save 24% of every dollar spent on their practice in the form of income tax reduction (and the savings get better the more money you make). Purchasing a \$500,000 practice will save you \$100,000 or more over several years in income taxes through depreciation.

With the 2018 tax law revisions, veterinary practice owners are also allowed to deduct 20% of their business income (IRS: “Section 199A: Deduction for Qualified Business Income” <https://www.irs.gov/newsroom/irs-issues-proposed-regulations-on-new-20-percent-deduction-for-passthrough-businesses> ) as long as your *taxable* income does not exceed \$315,000 filing married or \$157,500 filing single. If you will go over these limits, invest in new equipment or updates to your practice to reduce your taxable income. Consider that every dollar spent on your practice equals \$0.24-\$0.37 you *don't* have to pay the IRS.

## CLOSING THE DEAL

### **Practice Valuation**

Owners should have a valuation done and consult with a professional to figure out what their practice is worth. Involving an associate who is interested in buying the practice is a great way to introduce them to the “behind the scenes” aspect of ownership. Once a fair market value has been established, owners can work with associates or non-associate potential buyers to formulate a plan for transition.

### **Financing**

Bank lending is the most common way to finance a practice purchase. Banks such as Bank of America, Live Oak Bank and Wells Fargo have veterinary specific lending groups that can walk potential buyers through the process. Important things to plan for if ownership is in your future include a good credit history and score (MINIMUM 680, but average veterinary borrowers have credit scores around 730) and a savings account (there is no set minimum, but \$10,000-\$20,000 is a good starting point). Savings in cash or other liquid assets will show the bank you are capable of planning ahead and saving for unexpected emergencies. Banks want to see a solid history of on-time payments to creditors, wise use of credit, low amounts of “bad debt” (credit card debt) and a solid credit score. Student loans are considered “good debt” and veterinary-specific lenders say that student loan debt rarely prevents them from lending for a practice purchase assuming that the borrower has a good credit history and has demonstrated the ability to practice smart financial decision making. In addition, your production numbers as an associate can help you score a bigger loan (especially if you have other debt besides student loans) because it shows you are capable of bringing in an income for the practice if something were to happen to any associates and you were the only veterinarian on staff. Contact a veterinary specific lender or a lending group to discuss what type of loan you can get, what down payment is needed (if any), rate, terms, etc.

In the event that a traditional lender is unwilling to provide financing, some practice owners may be willing to serve as the “bank” to finance the deal. The buyer pays the seller directly every month plus interest based on the agreed upon terms. If the buyer defaults on the loan, the practice would then belong to the seller again and not a bank. This is a great option for practice owners who don’t need the full cash payout up front, and thus can enjoy the benefits of retirement with a monthly check almost like an annuity long term. Plus, a seller who is willing to act as lender in the sale of their own practice will collect a large amount of compounded interest over time. For example, a seller who sells her practice for \$500,000 at 5.5% APR with a 20 year term will collect not only the \$500,000 but an ADDITIONAL \$325,464.09 in interest! Plus, if the buyer defaults, the seller regains the asset (the practice) and can resell the asset. It should be noted that current default rates on veterinary practices is currently <0.25%, so the risk for default is extremely low.

Another option for sellers wanting to retain some ownership is a partnership buy-in. The terms of partnerships can be anything you want them to be, so be sure both parties consult with professionals and attorneys and spend several months at minimum exploring what that looks like for both parties. Graduated buy-in structure (purchasing a certain percentage at a predetermined interval of time) is also an option, especially for young veterinarians who have a large student loan debt or want to experience ownership at a slower rate with less up-front exposure to risk.

### **The Transition**

Because the entire purpose of selling to a younger veterinarian is to continue the legacy of your hospital as well as protect the community, your clients, staff and associates, a transition period should be expected with any sale. Spending 6months to a year helping your buyer transition after purchase will ease the strain on the staff and clients as well as the new owner. This transition period is common and most sellers are willing to stay on to help smooth out the changes. Staying too long can cause a riff if the new owner wants to change protocols, standard of care, etc. that the seller doesn’t agree with, so avoid adding into your terms of sale that the seller will agree to stay on for more than 1 year. You don’t want to find yourself (as the seller or buyer) unhappy that things are changing (or not changing) in a way you wouldn’t agree with. As the seller it is important to remember that this beautiful practice that you built with your blood sweat and tears is an ever-evolving business and it is ok that the new owner may do things differently.

Practice ownership is not for everyone, but proper mentorship, encouragement and professional development of interested associates can help the profession grow while keeping wealth accumulation in the hands of our fellow veterinarians and not in the pockets of corporate shareholders. Young veterinarians must also make an effort to learn about ownership, business skills and make it known to potential sellers of their interest to pursue ownership.