

LIFE CYCLE OF A VETERINARY PRACTICE:
FROM SOLE OWNER, THROUGH MULTI-OWNER CLINIC TO A SALE TO A NATIONAL FIRM

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Veterinary medicine practices come in all shapes and sizes, from small sole owner practices to large multi-clinic practices owned by a group of veterinarians, a national firm, or private equity. Over time, it is inevitable that there will be ownership changes in a veterinary practice. Although every practice evolves in its own way, this article will outline the life cycle of one imaginary veterinary practice located in rural Wisconsin, from its founding by one newly graduated fictitious veterinarian, through its transformation over time into a multi-owner, multi-clinic practice, to its ultimate sale to a national veterinary medicine firm, with clinics located throughout the United States. Although there is no standard way to transition a veterinary practice because every practice and every ownership transition has its own unique features, we have seen numerous recent examples of transactions similar to the one featured in this article.

Our imaginary veterinarian, Dr. Brown, graduated from veterinary school in 1980. He decided to strike out on his own and open his own practice in Farm City, in rural Central Wisconsin. As the only owner of the practice, Dr. Brown's corporate structure was not complex. He incorporated as the sole shareholder, director, and officer of the corporation (the "Practice") and he made all of the decisions and was entitled to all of the profits generated by the Practice. Initially, because Dr. Brown did not have the financial ability to purchase real estate for a clinic, the Practice leased space for its clinic from a third party landlord.

The Practice was very successful and grew rapidly. After 3 years, Dr. Brown decided to hire the Practice's first associate veterinarian, Dr. Smith, who just graduated from veterinary school. Although Dr. Brown had her sign an employment agreement with non-compete provisions and other restrictive covenants, no commitment was made to Dr. Smith that she would have the ability to acquire future ownership of the Practice. Not every owner wants to have co-owners, and, similarly, not every employed veterinarian seeks or is a good candidate for ownership. At the time of hire, Dr. Brown was not certain Dr. Smith would make a good future co-owner of the Practice.

Dr. Smith helped Dr. Brown further expand the Practice. As a result, Dr. Brown decided to offer Dr. Smith the opportunity to buy into the Practice. As part of Dr. Smith's purchase of 50% of the stock owned by Dr. Brown, the parties entered into a purchase agreement, a promissory note providing for payments of purchase price to Dr. Brown over time, and a shareholder agreement (a/k/a buy-sell agreement) restricting the sale of stock to others. The shareholder agreement also established the framework for what would happen to the stock in the event of a death, disability, retirement, or other termination of employment by either of them. Dr. Brown and Dr. Smith purchased life insurance on each other to fund a buy-out in the event of a death.

As the years passed, the Practice continued its successful expansion, other associate veterinarians were hired, additional clinics were opened in other Wisconsin communities and other veterinarians became owners. The shareholders agreement was amended many times to account for the multi-owner shareholder structure. The Practice had a board of directors with 7 directors who were all veterinarian-shareholders and a sub-set of the directors served as officers of the Practice, responsible for day-to-day management. The Practice leased some of its clinic real estate from a limited liability company (LLC) organized by the shareholders to own this real estate, and an operating agreement governed the

ownership and management of this LLC. Dr. Brown and Dr. Smith remained shareholders and were actively practicing veterinary medicine, but they were contemplating retirement.

In 2020, after 40 successful years, Dr. Brown received a “cold call” solicitation from a national firm interested in buying the Practice. The national firm and the Practice signed a non-disclosure agreement to maintain the confidentiality of the sale discussions and the Practice’s proprietary information. The national firm requested the Practice’s financial and other information to review. After its review, the national firm then submitted a non-binding letter of intent to the Practice setting forth the target price and other key financial terms and other terms for the proposed transaction, including the terms for post-sale employment for the shareholders. The national firm also wanted to purchase all of the real estate owned by the LLC that was used for the Practice’s clinics. After successful completion of its due diligence review, the national firm confirmed its intention to purchase the Practice and the parties entered into a binding purchase agreement setting forth the detailed terms of the transaction. The transaction successfully closed in late 2020.

The Practice and the real estate were purchased by the national firm, the shareholders received payments in exchange for their ownership interests, Dr. Brown retired, Dr. Smith agreed to remain employed with the Practice for a 1-year transitional period, and the other veterinarian-shareholders retained their full-time employment. The Practice evolved successfully from a sole owner, one clinic veterinary practice, through a 2 owner practice, through a multi-owner, multi-clinic practice, owned by multiple practicing veterinarians, to a national firm with vet clinic locations across the country. The changes of ownership over the years provided opportunities for the Practice to grow and the veterinarian-owners to realize value from the Practice.