

BEWARE THE ONE STOP SHOP & THOSE THAT DISCOURAGE INDEPENDENT ADVICE

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For those of you who are thinking of retiring, relocating, bringing in a partner or having an associate buy-in to your existing veterinary practice, remember these two key points: Avoid companies who claim to be all-inclusive and avoid companies who discourage the use of other professional advisors. It will save you time, money, headaches and possibly even protracted litigation from members of our profession. Some of you may have come across companies who claim to be a “one-stop shop” for selling or purchasing veterinary practices. These companies claim to have all of the professional help you need and hold themselves out as the “experts” in the veterinary field. Some of these companies have even gone to great lengths to discourage the use of other advisors (attorneys, accountants, practice consultants, etc.) in connection with transition-related services they may provide. Our firm has represented more than 4,500 medical professionals in the last twenty-five years and we can confidently say this: 1) we have yet to come across a company that can adequately provide professional expert advice of every facet of a veterinary practice transition; and, 2) any firm, company or business which discourages other professional advisors from being involved with a transaction does so to the detriment of both parties. The real harm is that these same companies get away with it all over the country because, quite honestly, the veterinarian doesn’t understand the issues to watch out for and usually falls prey to the companies “doom and gloom” scenarios of using professional advisors for transition related services. Here are a few quick points to watch out for when using companies for transition related phases of your veterinary career:

1. Avoid the one-stop shop. There are many companies throughout the nation which profess to be able to handle all of the transition-related issues you will face. Generally these companies use a “form” document to cover the entire country and then claim that their company’s professionals have spent thousands of hours perfecting the document or they have perfected the “proper” formula to determine the purchase price for the veterinary practice and, therefore, you don’t need to hire advisors to inspect the document or the veterinary practice. Besides the smug declaration, this claim is preposterous. The problem with this “claim” is that no company has the ability to adequately represent your best interests in every facet of a transition. Such companies also often claim to represent both parties in the transaction. Unfortunately for the veterinarians involved; two masters cannot be served equally. One of the veterinarians will be penalized for such dual representation. There are too many areas of a properly drafted veterinary practice purchase agreement where the seller and the buyer are diametrically opposed to each other which prohibits “dual” representation from occurring. Sections like the purchase price, restrictive covenants, purchase price allocations, seller representations and warranties, redo work, contingencies for the buyer to “back out” of the deal, etc., are all areas which are adversarial in nature and require independent professional advice. Furthermore, no company can represent you better than your local professional advisors who are intimately familiar with the market in which you practice. For instance, while our firm is licensed in many

states throughout the country, I could not state definitively that I know the unique nature of the veterinary market, or the corresponding state laws associated with the practice of veterinary medicine in a state where I am not licensed. I could provide you with a document that would most likely adequately protect you, but I would encourage the use of local professionals to review and inspect the veterinary practice to provide you with the best possible protections for the proposed transaction. However, the greatest reason to avoid such companies is simple: they only get paid if the transaction closes. As a result, there is a vested interest in the company to push problems the transaction might have to the side and continue to pressure the deal to close.

2. Avoid companies which discourage the use of advisors. As mentioned previously, this is the biggest red flag you can come across when selecting a company to handle your transition-related issue. Companies who seek to exclude other professionals from inspecting the veterinary practice and representing veterinarians in connection with the proposed transaction do it for two reasons. One, they are afraid that outside advisors may “kill the deal.” My response: advisors who center their business around representing veterinarians do not “kill deals.” however, they do closely review the proposed transaction and, as a result of their unique knowledge, know what may be potential problems for their clients and advise them accordingly. There are very few professionals who primarily represent veterinarians we have worked with over the years who “kill deals.” Oftentimes, when a transaction has not closed, there were numerous issues associated with the proposed transaction that gave multiple advisors reason for concern. Second, oftentimes these companies are receiving compensation from third parties which they do not disclose to the parties involved in the transaction, to the detriment of both of the parties. When we come across companies who seek to exclude advisors, one of the main reasons is generally because they are receiving a “kickback” from a lender for pushing the deal through. This “kickback” is usually not disclosed to the person assuming the loan, which causes the veterinarian to pay a higher monthly payment for the loan. This also affects the seller because a higher interest rate means that you have a smaller pool of potential buyers who qualify for the loan. The other issue we see is that the company pretends to act as a dual agent in an attempt to extract more money from the transaction by charging a “representation fee” to the buyer. The company then acts as a liaison between the buyer and the seller. Any veterinarian who agrees to such a proposition is throwing away money. This “representation” is exactly what veterinary practice brokers throughout the country do in connection with veterinary transitions and do not charge the buyer a “representation fee.” Furthermore, how are they representing you? Are they negotiating the purchase price (and thus reducing their fee received from the seller)? It’s doubtful. Are they revising the document to properly protect you through stringent restrictive covenants and numerous representations and warranties? Are they specifically detailing uncompleted veterinary work and redo work so the buyer is protected post closing? In the end, the “representation fee” turns out to be a fee paid by the buyer just to make an offer on the veterinary practice. Again you need to be on

your guard, companies who employ such fees also have flowery language and “doom and gloom” rhetoric prepared for your objection to this. It is up to you to “buy” in to such propaganda.

We understand that this article might seem self-serving since we are a law firm specializing in representing veterinarians in their business transition matters, but unfortunately, we have seen an immense increase throughout the country of veterinarians being taken advantage of during the transition process, usually from companies who discourage the use of other professional advisors or who claim to be an “all-inclusive” company that can handle all of the issues associated with veterinary transition issues. As purchase prices for veterinary practices continue to rise, more people will enter the unique field of veterinary medicine simply to make a buck. The easiest, and most lucrative area to prey upon veterinarians: the transition process. In our article, “The Do-It-Yourself Folly” we highlighted the importance of using professional veterinary advisors during transition related phases of your career in veterinary medicine. As mentioned in the article, these advisors have spent years representing veterinarians in their respective advisory roles and have probably dealt with every possible circumstance which may derail your transition or cause financial or emotional harm to you. The problem where most veterinarians go wrong is they believe any professional will do. Any broker can sell their veterinary practice, any lender can give them a good rate, any attorney can represent them during the transition process, any accountant can review the books and records of a veterinary practice, etc. However, this is not the case. The veterinary “business” has unique areas or law, financing and accounting which most members of the various professions mentioned above, do not understand or comprehend the importance of such issues as it relates to veterinarians. Adding to the complexity of this profession though are the types of companies mentioned above who seek to prey on the ignorance of veterinarians nationwide. They utilize scare tactics and strong arm negotiation to encourage veterinarians to avoid the use of other veterinary transition professionals. Some of the following might sound familiar:

“Why use an accountant to review the books and records? They will only tell you not to buy it because they don’t understand the industry.”

“Practice consultants? They are only going to give you the same information I have already provided you, so why waste your money.”

“Why spend your hard-earned money for an attorney to review the document? This document has been used for years by our company. The attorney will only mess up the deal.”

“You shouldn’t use that lender; they won’t approve this deal (read: they won’t pay me points).”

If any of the above sounds familiar. . .run. Our law firm participates in many practice purchases/sales a year and usually the only times we run into problems with transactions are for sale by owner transactions, unscrupulous brokers and companies mentioned above. We encourage you to utilize professionals who have a profound knowledge of this industry but beware of those companies and individuals who seek to prey upon you.

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