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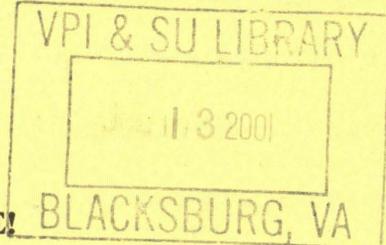


VIRGINIA-MARYLAND VETERINARY NOTES

Veterinary Teaching Hospital, Virginia-Maryland Regional College of Veterinary Medicine

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THOUGHT FOR THE MONTH

A person without principle never draws much interest.

Kent C. Roberts, DVM
Extension Veterinarian



VIRGINIA POLYTECHNIC INSTITUTE AND STATE UNIVERSITY

This newsletter is published quarterly in support of the outreach program of the Veterinary Teaching Hospital VMRCVM, Blacksburg, VA and is prepared for and distributed to veterinarians in the Mid Atlantic Region



Determine Your Practice Value by Capitalized Gross Earnings

In the last two articles, we discussed the methods for determining the *adjusted net cash flow* and *gross earnings* in your practice. In this article, I will apply a capitalization rate to earnings as one method of assessing value.

What do we mean by *capitalization* and *capitalization rate*? (I will use the abbreviated term *cap rate* during the remainder of this article.) To capitalize an investment means essentially to apply a rate of return on your investment. Let's say for this discussion that we have determined a gross earnings of \$100,000 returned on each of two potential investments (land, stocks, veterinary practice, whatever). Upon due diligence, we learn that Investment A is very risky and has some potential problems. Using whatever due diligence method we select, we feel that due to the entire scenario, we would be entitled to a rate of return (earnings) of 25% on our investment. On the other hand, Investment B is a slam-dunk with very little risk and few problems. Therefore we are willing to settle for a lesser rate of return on the investment, say 17%.

So the question becomes, "If my return is \$100,000, and that is 25% or 17% of the investment, what is the investment price to be for each investment?" From Algebra I we learned to solve for X (price) as follows:

$$\begin{aligned} \$100,000 &= .25X \\ \text{where } X &= \$500,000 \text{ for Investment A} \end{aligned}$$

$$\begin{aligned} \$100,000 &= .17X \\ \text{where } X &= \$588,000 \text{ for Investment B} \end{aligned}$$

Observe that since the cap rate is a denominator, the lower rate produces the higher price. This also makes sense, considering that we can justify a higher price for anything with a lower risk.

At Simmons & Associates, it has been our observation that veterinary practices commonly sell at cap rates approximating 18% – 24%. If we invert this to a multiple, it would be the same as 4.1 (100/24) to 5.6 (100/18) times gross earnings. Our proprietary method considers 37 different factors, each with its own weight, to arrive at a customized cap rate for each practice. This makes sense because each practice is different with its own qualities. Although a multiple of 5 is commonly used in our profession, we do not see that every practice is worth the same multiple of earnings – some are worth more, some less.

Another factor to consider is growth – if there is any. A practice growing steadily should receive some consideration for the long-term stable growth that the owner has established and will turn over to a new owner. We typically allow 3-6% in a growing practice.

So as to our method of **capitalization as one method of practice evaluation**, we will capitalize the projected gross earnings. To do this, we determine the weighted average of the past three years' adjusted net cash flow and gross earnings. It is a safe assumption that cash flow and earnings percentages will be very close to what they have been over the past three years, assuming no significant changes in management. We give weight to the most current years because they are more representative of the present. We then apply this percentage to the current projected year's gross and capitalize that figure by our customized cap rate.

For example:

	Gross	Growth rate	Earnings % of gross	Cash flow %
1996	\$518K			
1997	\$550K	6%	16%	34%
1998	\$600K	9%	19%	37%

1999	\$648K	8%	17%	35%
2000	2000 gross through October up 6% - Projected gross \$687K			

Weighted average growth rate

	8 x 3 = 24
	9 x 2 = 18
	6 x 1 = <u>6</u>
	48 / 6 = 8% weighted average growth rate

Weighted average gross earnings (same procedure)
 105 / 6 = 17.5% weighted average gross earnings

Weighted average cash flow (same procedure)
 213 / 6 = 35.5% weighted average cash flow

In this case we may elect to apply a 4% long-term stable growth rate to the 2000 projected gross. We rationalize that 2000 has almost ended and the gross almost determined. The 4% represents that under current management momentum, the owner will turn over this gross plus and additional 4% to the new owner. Any value attributed to growth over that figure would accrue to the new owner under his/her efforts.

Now let's say we have considered all our 37 proprietary factors and calculated a customized cap rate for this practice of 22%. Our value calculation would be as such:

$$\$687 \times 1.04 \text{ growth} \times .175 \text{ earnings} / .22 \text{ cap} = \$570\text{K rounded}$$

(83% of projected gross)

In the next article we will demonstrate how to determine if this hypothetical value meets other crucial market criteria to make it truly a viable and prudent price to pay. The *sanity tests*.

Doyle Watson, DVM; President and Owner, Simmons & Associates, Inc; *Veterinary Practice Brokers since 1977*

Retirement Plans

A recent study of 170,000 distributions (pay outs) from defined contribution retirement plans indicated that 68% of plan participants who changed jobs in 1999 took cash withdrawals from their tax-deferred retirement accounts rather than leaving their money in the plan or rolling their balances into their new employees' plans or into an IRA.

The highest percentage of cash payments (78%) occurred among the 20 to 29 year old employees who have the most to lose since they stand to benefit the most from the compounding of earnings in their employee accounts over time.

Highlights, Nov. 2000, Federal Retirement Thrift Investment board

Would you believe?

Below are the five states with the most veterinarians

State	Total number of veterinarians
California	4,794
Texas	3,908
Florida	2,894
New York	2,547
Pennsylvania	2,204

Canine and Feline Blood Typing Cards

Eleven different blood group systems with eight types have been identified in the dog. Three different blood types have been identified in the cat. The most clinically important types in the dog are dog erythrocyte antigens (DEA) 1.1, 1.2, and 7. Of these, DEA 1.1 is considered the most significant. Naturally occurring antibodies to DEA 1.1 and 1.2 are rare. Naturally occurring antibodies to DEA 7 occur in 15% of dogs. Cat red cell types are A, B, and AB (these are unrelated to the human A B O antigens). All cats with A blood type have naturally occurring anti-B antibodies measured in relatively low titers. All cats with B blood type have naturally occurring anti-A antibodies measured in relatively high titers. Transfusion of these blood types to an incompatible patient will result in hemolysis, significant morbidity, and in cats with blood type A, potential mortality.

Canine and feline blood typing may be accomplished by sending EDTA anticoagulated cold (but not frozen) blood to commercial laboratories, by using commercially prepared reagents in your hospital laboratory, or by using commercially available blood typing cards (Rapid Vet-H Canine and Feline; dms laboratories, Flemington, NJ). The blood typing cards have the advantage of being relatively inexpensive, quick and easy to use, and require quite small amounts of blood (0.4 ml of EDTA blood). The cards depend upon an agglutination reaction. For DEA 1.1 and feline type A, monoclonal antibody to those types are impregnated into the cards. Type A cats have low titer and relatively short-lived antibodies to feline type B. Therefore, the manufacturer uses a lectin with binding specificity for feline type B antigen in the card test. The kits come with easy-to-understand instructions and trouble-shooting guide, agglutination test cards, necessary reagents including diluent, positive and negative controls, and pipettes and stirrers. The feline kit comes with feline blood group report cards. Both kits supply additional referenced information.

When the kit is received, reagents must be refrigerated (controls must not be frozen; frozen control reagents will be hemolyzed). The manufacturer indicates the canine cards are stable at room temperature for 19 months and can be stored in the refrigerator (this does not lengthen the period of stability, and the cards must be returned to room temperature before use). The canine diluent is stable for one year, and the reagents are stable for six months at 2° to 7° Celsius.

The feline cards are stable for one year at -20° Celsius. (Note: This is different from the canine cards.) The diluent and control stability is identical to the dog when appropriately refrigerated. The expiration date for both kits represents the date of the shortest-dated component in the kit.

Recognizing potential problems with the controls, the manufacturer has reduced the size of the control dispensing bottle and will provide additional control materials for a small cost to users whose controls have expired before the cards.

Blood typing in cats is critical to prevent transfusion reactions. Feline type B red cells transfused into a type A cat will cause reaction and minimal survivability of the transfused cells. Feline type A red cells transfused into a type B cat will cause immediate and catastrophic anaphylactic reaction. Type A kittens born to type B queens will have neonatal isoerythrolysis. Determining blood groups of the queen and tom prior to breeding, coupled with appropriate genetic counseling, can minimize neonatal isoerythrolysis and fading kitten syndrome.

Taken from: Feldman, B.F., Jamer Anim Hosp Assn 35:445, 2000 as reported in VetMed, Vol. 6 Issue 5 Nov. 2000, Iowa State University, Ames, IA

What I've Learned

“I've learned that just when I get my room the way I like it, Mom makes me clean it up again.” (Age 12)

Equine Viral Arteritis

Equine viral arteritis (EVA) is an infectious disease caused by the equine arteritis virus (EAV). With the exception of abortion or death in very young foals, EVA is rarely fatal. Most horses that contract the disease make full and uneventful recoveries. Treatment, if applied, is directed at reducing the severity of clinical signs during the course of the illness. EVA is a special concern to horse breeders because it can cause abortion in pregnant mares, death in young foals, and render breeding stallions permanent carriers of the virus. Horses of any breed can be infected with the virus, but the prevalence of infection has been reported to be much higher in certain breeds, most notably, Standardbreds. This may be due to the large number of carrier stallions being used for breeding.

Many horses exposed to the virus will develop no signs of disease. When illness does occur - usually within 3 to 7 days of exposure - EVA can be difficult to diagnose because it is clinically similar to several other equine diseases such as equine rhinopneumonitis, influenza, equine infectious anemia (EIA), hoary alyssum intoxication, and purpura hemorrhagica. The clinical signs vary in range and severity and can last from 2 to 14 days. Clinical signs may comprise fever, swelling (most notably of the legs, scrotum, sheath or mammary glands), loss of appetite (anorexia), depression, conjunctivitis, clear to cloudy nasal discharge, skin rash or urticaria (hives, frequently localized on the head and neck), abortion in pregnant mares, pneumonia and death of young foals.

EAV infection can be transmitted among horses in four different ways: 1) Respiratory - an acutely infected horse spreads the virus to other horses via respiratory secretions. (Exposure - commonly occurs at racetracks, shows, sales, and other events.) 2) Venereal - virus shed in the semen of an infected stallion is transmitted to mares when they are bred. Some stallions infected with EAV may become permanent or long-term carriers of the virus. Even if a stallion never shows any signs of disease, the virus may remain in his reproductive tract indefinitely. It can be passed to mares via his semen when they are bred - whether live covered or artificially inseminated. However, a carrier stallion's fertility does not appear to be adversely affected. 3) Indirect contamination - tack and or equipment shared among horses may serve as a source of infection. 4) In utero - virus passes across the placenta from an infected mare to her unborn foal (uncommon).

Sound management practices can help prevent and control EVA. Methods recommended by the American Association of Equine Practitioners (AAEP) include: 1) Isolate all new arrivals (and returning horses) to your farm or ranch for 3 to 5 weeks. 2) If possible, segregate pregnant mares from other horses. 3) Blood test all breeding stallions for EAV antibodies. 4) Check semen of any unvaccinated, antibody positive stallions to identify carriers before breeding. 5) Once tested negative for EAV antibodies, vaccinate all breeding stallions annually. 6) Physically isolate any EAV carrier stallions. 7) Restrict breeding EAV carrier stallions to vaccinated mares or mares which test positive for naturally acquired antibodies to the virus. 8) Vaccinate mares against EVA at least 3 weeks prior to breeding to a known carrier stallion. 9) Isolate mares vaccinated for the first time against EVA for 3 weeks following breeding to an EAV carrier stallion. 10) In breeds or areas with high rates of EAV infection, vaccinate all intact males between 6 to 12 months of age.

Taken from: NAHMS, USDA:APHIS:VS, CEAH, Fort Collins, CO April 2000. As reported in VetMed, Vol. 6, Issue 5, November 2000, Iowa State University, Ames, IA

What I've Learned

"I've learned that wherever I go, the world's worst drivers have followed me." (Age 29)

What is a Well-managed Practice?

There is no question that veterinary practices can attain strong financial results while keeping patient care their top priority. During our 18 years of financial and management consulting with veterinary practices nationwide, Wutchiett & Associates, Inc. has seen countless examples. When practice management became a hot topic in the late 1980s, we presented these success stories as attainable goals for any veterinary hospital. We got two common responses: 1) disbelief that the results were possible and 2) requests for more information about how these practices achieved such success.

That's why we conduct an annual study of highly successful veterinary practices and share the results. We began the Well-Managed Practice Study in 1988. After carefully selecting hospitals, we thoroughly scrutinize financial data, management plans, and decision-making processes of each practice. In 1995, we expanded the companion animal study to include such new business elements as the theories behind pricing strategies and fee structures.

Soon equine and food animal practitioners began asking for similar management studies. We expanded our Study in 1997 to include detailed information for each practice type. To determine what makes practices well managed, we look for similar financial and operational decisions. The results help veterinarians see what the best - not just the average practices are achieving.

To qualify as a Well-Managed Practice and participate in the study, a hospital must meet three criteria:

1. **Patients always come first.** Owners never lose sight of why they are in practice- to promote patients' health and well being.
2. **The Practice runs efficiently.** Size or revenue does not matter. Instead, we judge the ratio of profit to total revenue (the percent of revenue left for veterinarians after paying variable, fixed, staff compensation, and rent expenses).

In well-managed companion animal practices, net profit averages 40 percent to 45 percent of total revenue. For example, a practice earning \$60,000 in revenue should have at least \$240,000 left to pay owners and associates and reinvest in the practice.

Equine practices also have a 40 percent to 45 percent ratio, and food animal practices generally have a 33 percent to 38 percent net profit ratio. Percentages will be lower if the practice offers a significant amount of dispensing, over-the-counter product sales, or such nonmedical services as grooming and boarding.

3. **Owners enjoy practicing veterinary medicine.** How practice owners feel about themselves and their practices shows toward employees and clients. A practice's client relationships are an extension of these attitudes. Market research indicates that the relationship veterinarians and staff have with clients affect service quality - a primary factor influencing client retention.

Well-Managed Practice owners have what we characterize as " an eagerness to do better" They constantly ask themselves and their staff how the practice can improve. For example, if they've done something the same way for two years, they know it's time to consider a change.

In The 1998 Well-Managed Practice Study, owners of Well-Managed Practices agreed their growth depends on five key trends. Ongoing success depends on their ability to:

- Compensate veterinarians for time, knowledge, and experience.
- Direct clients' perception of value to their medical services;
- Structure the practice for high-quality, affordable medical care;
- Increase staff members' contributions to practice revenue.
- Build market share.

By incorporating these trends into their business plan, Well-Managed Practice owners can keep competitors in check and position themselves for success.

By Denise L Tumblin, CPA, Wutchiett & Associates, Inc., Columbus, Ohio
Taken from WVMA Fact Line, Vol.14, Issue 1 March 1999

Exotic Pet Care Tips Common Green Iguana

These reptiles eat fig tree leaves almost exclusively in the wild. They are not carnivorous. They will jump from tree into the Amazon River to defecate. From this knowledge, it is appropriate to feed them vegetable matter in captivity and provide them a large body of water in their enclosure into which they can defecate. A good homemade diet is chopped collard greens, Chinese cabbage, dandelion leaves, grape leaves. Broccoli leaves (not the flower we eat), and grass clippings in the summer. Avoid all lettuces, even romaine. Avoid all meats, dog and cat food, tofu, and any other high protein source as it leads to renal failure. Better yet is to simply feed Zupremes canned iguana diet.

Their breeding season is from November until June. During this time, they become territorial and their appetite decreases. They also become quite aggressive. Females may become "pregnant" without breeding. If they do, they become very anorectic. It is necessary to provide such a female some soft soil in which to nest (they burrow to lay eggs). Egg laying occurs from February through April. A mixture of 50% sand and 50% peat moss or potting soil works well. Filling a 4-inch PVC pipe half way with this substrate provides a nice tunnel for egg laying.

An ambient temperature of 90 degrees in the daytime and 75 at night is appropriate for all iguanas.

Dr. Alex Cassucio, Taken from WVVMA Factline, Vol. 14, Issue 1, March 1999

Did You Know?

Scientists estimate that the world's rain forests are home to two-thirds of the planet's wild life species. The ongoing destruction of these tropical habitats is reaching the level of 40 million acres each year with the result that at least 50 plant and animal species will become extinct every day.

KCR, June 2000

Opportunities in Continuing Education Spring 2001

<u>Date</u>	<u>Topic</u>	<u>Location</u>	<u>Contact Hours</u>
February 9	Small Animal Problem Solving Series	Blacksburg	30*
February 16 & 17	Introductory Echocardiography	Blacksburg	10
March 2 & 3	Applied Ultrasonography	Blacksburg	10
March 23 - 25	Advanced Echocardiography	Blacksburg	21
March 30 & 31	Practical Eye surgery	Blacksburg	10
April 13 & 14	Applied Ultrasonography	Blacksburg	10
April 20 & 21	Gastrointestinal Endoscopy I	Blacksburg	10
May 25 & 26	Diagnostic Ultrasonography	Blacksburg	10
June 1 & 2	Introductory Echocardiography	Blacksburg	10
August 10 & 11	Introductory Echocardiography	Blacksburg	10
Sept. 7 & 8	Applied Ultrasonography	Blacksburg	10
November 8-10	Advanced Echocardiography	Blacksburg	21
December 7 & 8	Applied Ultrasonography	Blacksburg	10

Please note: * This course meets the second Friday of each month through July.

The courses listed above are limited enrollment and feature a hands-on laboratory experience under the guidance of clinical faculty members. Program brochures provide course details. For registration or more information, please contact **Anne Clapsaddle**, VMRCVM – Virginia Tech, Blacksburg, VA 24061, (540) 231-5261; or **Conference Registration**, Continuing Education Center, (540) 231-5182.

Virginia-Maryland Regional College of Veterinary Medicine Extension Staff:

Dr. J.M. Bowen	-	Extension Specialist - Equine
Dr. W. Palmer	-	Extension Specialist - Equine
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Dr. W. Dee Whittier	-	Extension Specialist - Cattle
Dr. Will Hueston	-	Extension Specialist - Animal Health Policy
Dr. Nathaniel Tablante	-	Extension Specialist - Poultry
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K.C. Roberts, Editor

Anne Clapsaddle, Production Manager of VIRGINIA-MARYLAND VETERINARY NOTES

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