SPVS – Hazlewoods' Profitability Survey, With Commentary

FEBRUARY 2023

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1. Background

- The veterinary sector has seen significant change over the past few years. Increased demand, Covid, staffing shortages and more have brought their own challenges. Despite these, many practices have reported strong profits. It is against this backdrop that we launched this profitability survey.
- The challenges have led to slightly lower than hoped for numbers of survey participants at 35 in total, although we are still able to report meaningful results.
- Practices provided information from their most recent set of accounts and from their PMS. Of course, historic and current performance does not guarantee the future.
- As well as questions relating to profitability, practices were also asked to consider their optimism for both the future of the veterinary sector and their own practice.
- The table to the right sets out analysis of the work types of practices that participated in the survey. More comprehensive analysis and commentary (where felt helpful) for Small Animal in isolation has been possible than for Farm only and Equine only practices due to the larger number of survey participants in Small Animal compared to Farm or Equine.

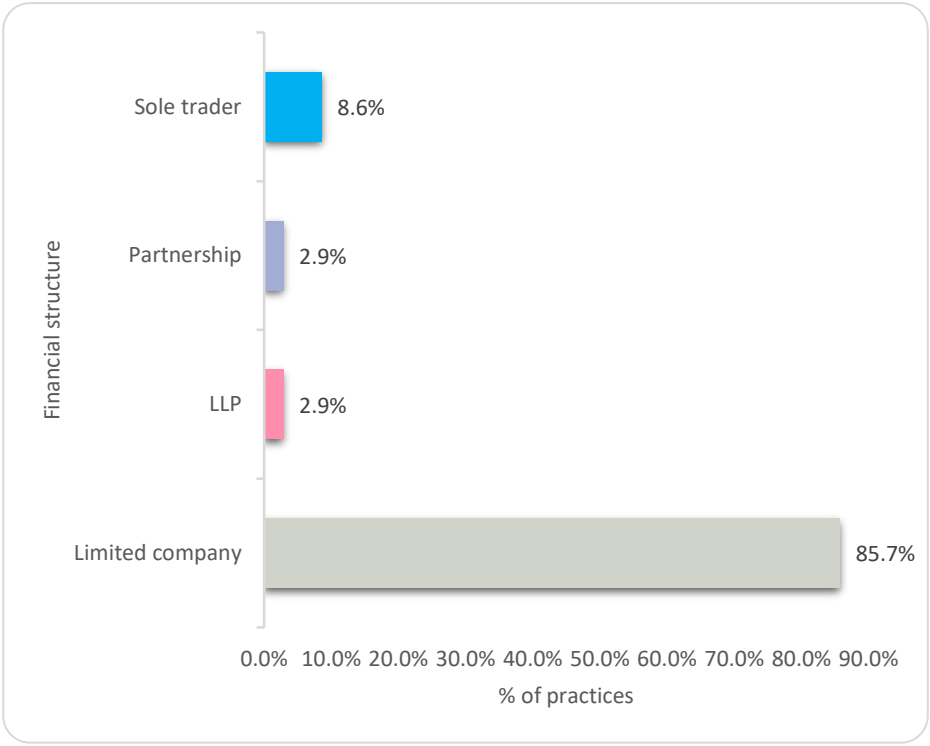
Survey participants:	**35, with all but 2 being vast majority first opinion**
Mix of work:	
Number of practices with Small Animal work, of which:	23
Small Animal only	17
Small Animal and other work	6
Number of practices with Farm work, of which:	6
Farm only	1
Farm and other work	5
Number of practices with Equine work, of which:	7
Equine only	1
Equine and other work	6

Look out for reference to **"Insight"** below for commentary on the results.

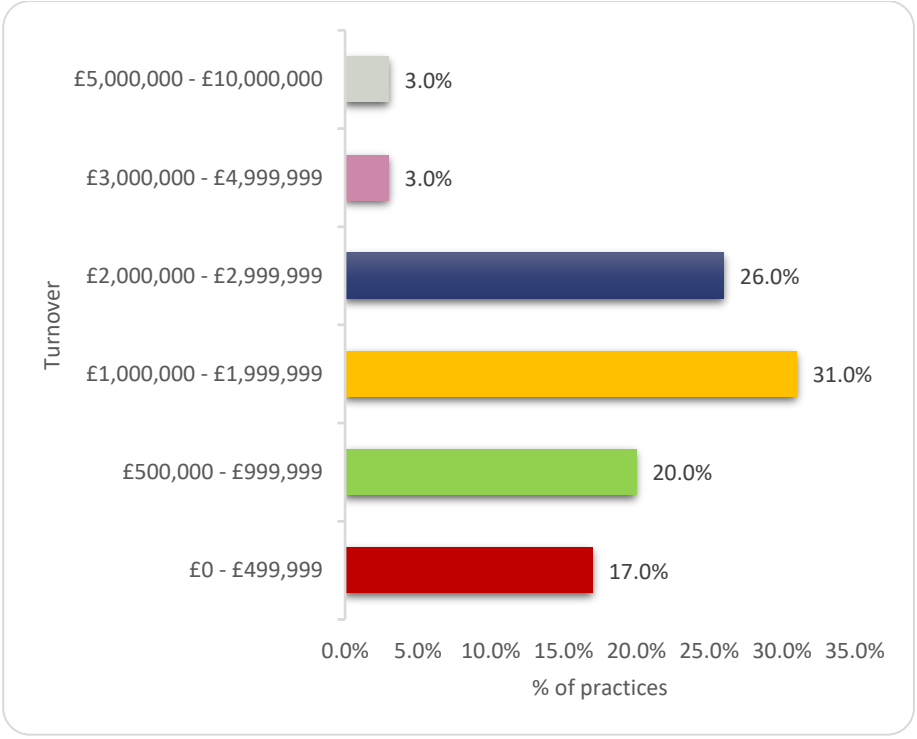
2. Financial results: all work types

- In this section, all practices are included, whether Small Animal, Farm, Equine or mixed.

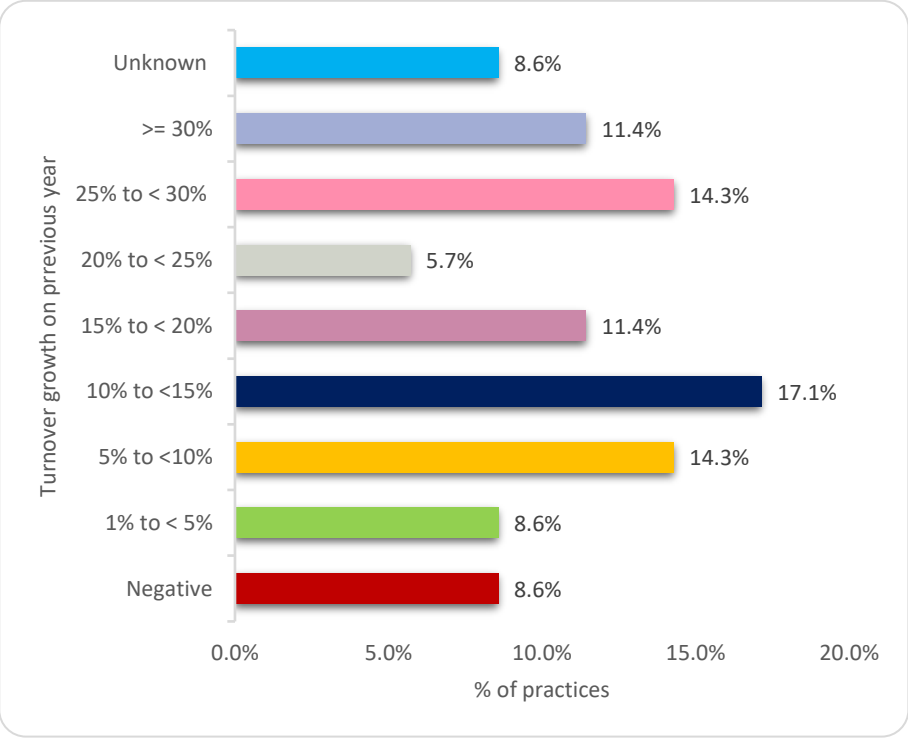
Financial structure: all work types



Turnover most recent financial year: all work types



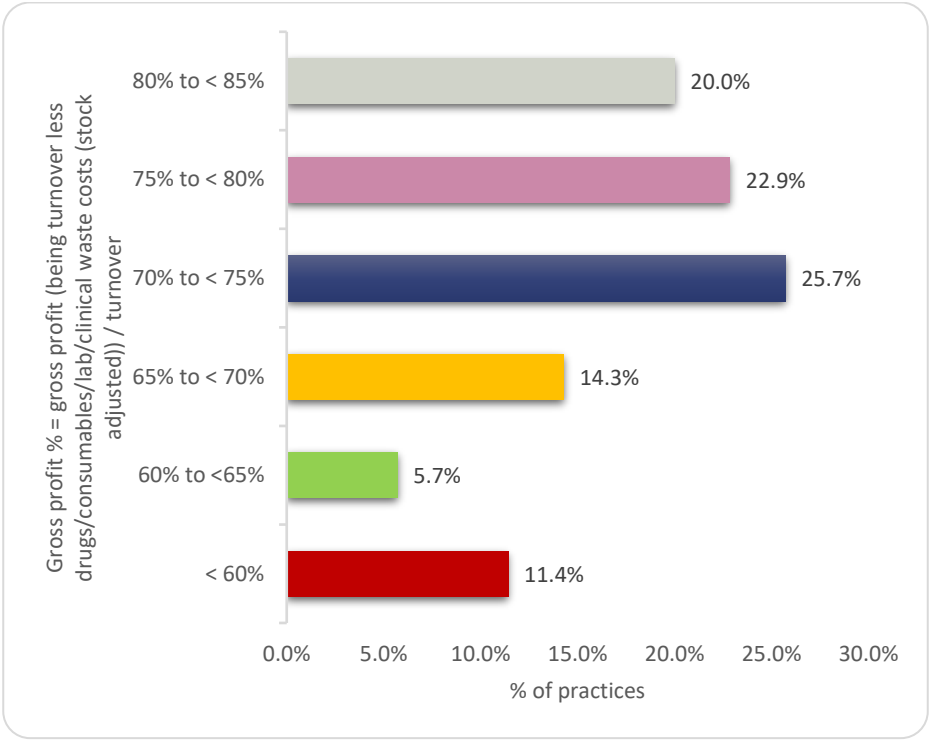
Turnover growth on previous year: all work types



Insight

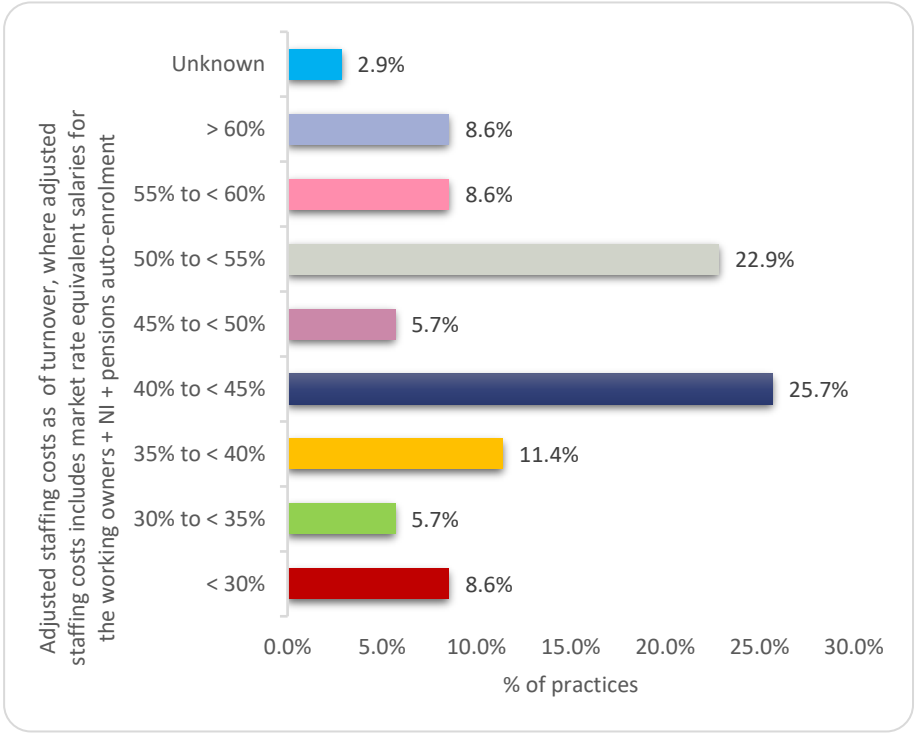
- 3 out of every 10 practices have reported turnover growth of 20% or more.
- 3 out of every 10 practices have reported turnover growth of between 10% and 20%.
- This backs up the feeling that many practices had been reporting to us of being “busy on the ground” during 2022, although it should be noted that we have seen some practices having put up their prices (particularly on the fee side) by 10% or more during 2022.
- As we move further into 2023 it will be interesting to see what happens to the trend. Anecdotally we have seen some softening of turnover growth as we have headed into 2023 compared to the same period in 2022. This said, history suggests that many animal owners continue to spend on their animals during economic turbulence and that veterinary is considered by some to be relatively recession proof.

Gross profit % of turnover = gross profit margin: all work types



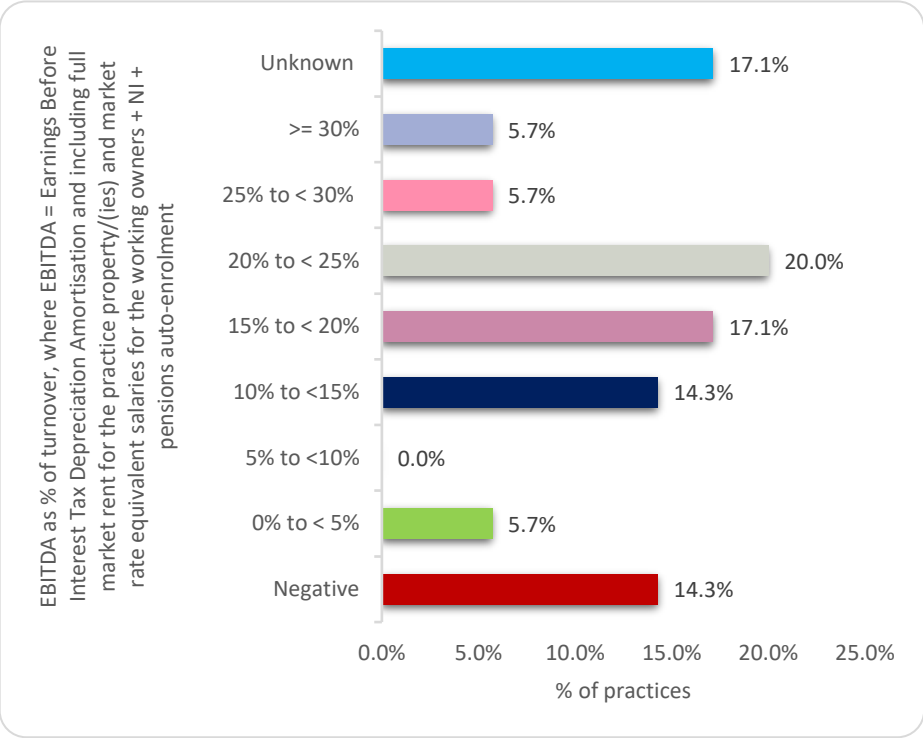
- The above is for all work types. Commentary on Small Animal only gross profit % is included in the Small Animal only section below.

Adjusted staffing costs as % of turnover: all work types



- The above is for all work types. Commentary on Small Animal only adjusted staffing costs % is included in the Small Animal only section below.

EBITDA as % of turnover: all work types

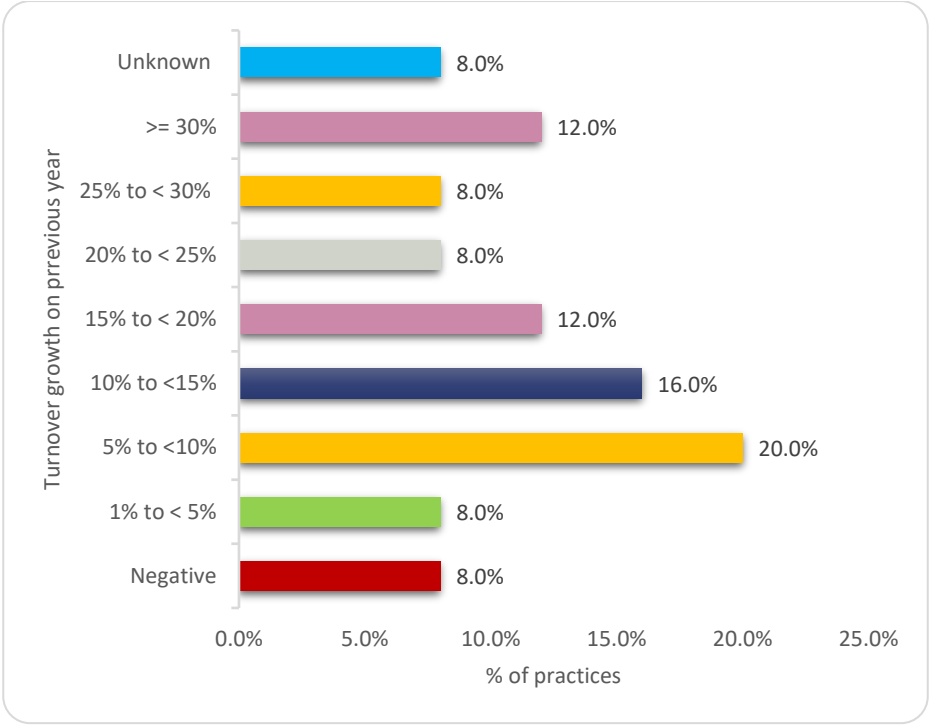


- The above is for all work types. Commentary on Small Animal only EBITDA % is included in the Small Animal only section below.

- EBITDA = adjusted profit.
- Profit = turnover less trading costs (i.e. excluding capital expenditure and capital repayments on borrowings).
- Adjusted profit means profit adjusted for the I, T, D and A in EBITDA, because these do not relate to the underlying trading performance of the practice.
- I = interest, i.e. exclude interest from EBITDA because that is set by financiers.
- T = tax, i.e. exclude tax from EBITDA because tax rates are set by the government.
- D = depreciation, i.e. exclude depreciation from EBITDA because that is an estimate of the real-world reduction in value of assets.
- A = amortisation, i.e. exclude amortisation from EBITDA because that is an accounting adjustment to intangible assets (typically goodwill). Amortisation can also be thought of as depreciation by for intangible assets.
- EBITDA also needs to:
  - exclude material exceptional/non-recurring costs, e.g. substantial repairs and maintenance/one-off legal fees etc;
  - recognise full market rents for the practice properties if not already included in profit; and
  - factor in notional market rate equivalent salaries for the owners plus employer's NI plus pensions auto-enrolment on these.

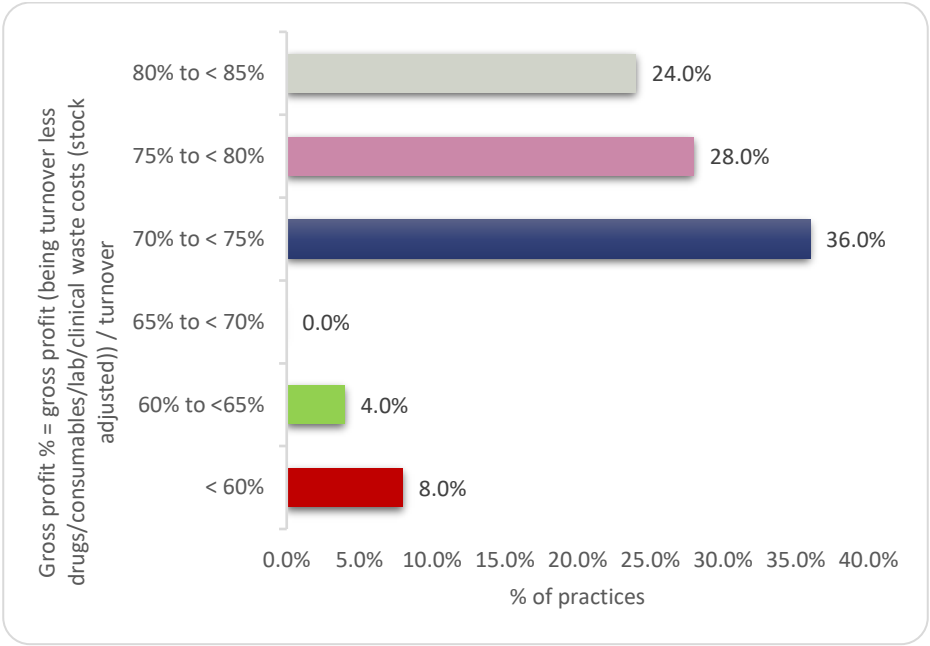
3. Financial results: Small Animal only

Turnover growth on previous year: Small Animal only



- The Small Animal turnover growth results are relatively comparable to those for the all work types and therefore please refer to the commentary in the section above.

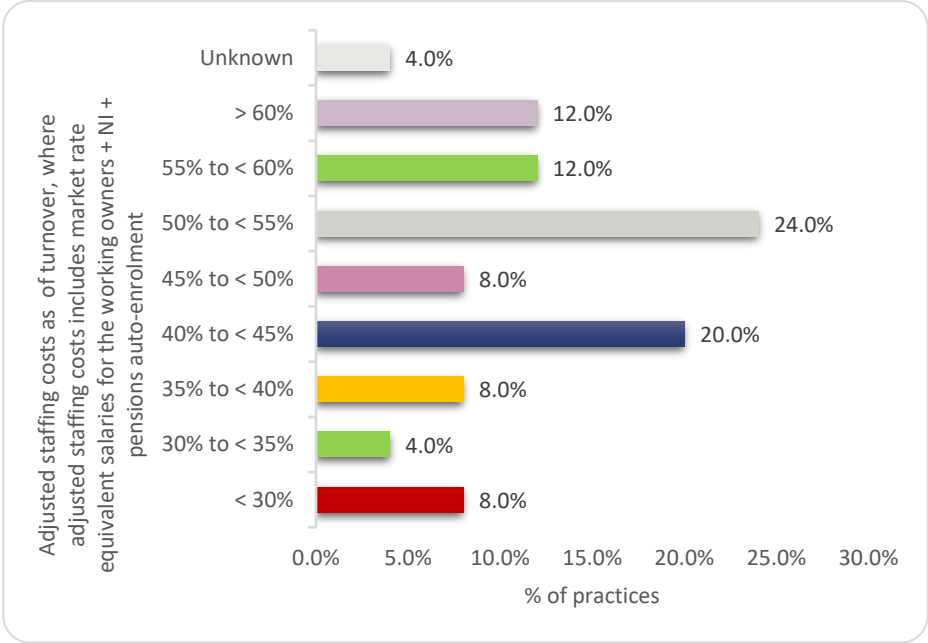
Gross profit % of turnover = gross profit margin: Small Animal only



Insight

- Average gross profit % (excluding outliers): **75.5%.**
- This is circa 2% higher than we were generally seeing in the few years prior to Covid.
- There are regional variances with the south generally seeing margins 1% to 3% higher than the north primarily due to higher prices charged.
- We have seen more practices achieving the higher gross profit %s.
- The % is driven by pricing (with there having been notable fee inflation on services as reported in the recent SPVS fee survey), consistency of charging, the mix of fees v non-fees (i.e. drugs/consumables etc) and the buying terms including discounts with drugs, consumables, lab and clinical waste suppliers.

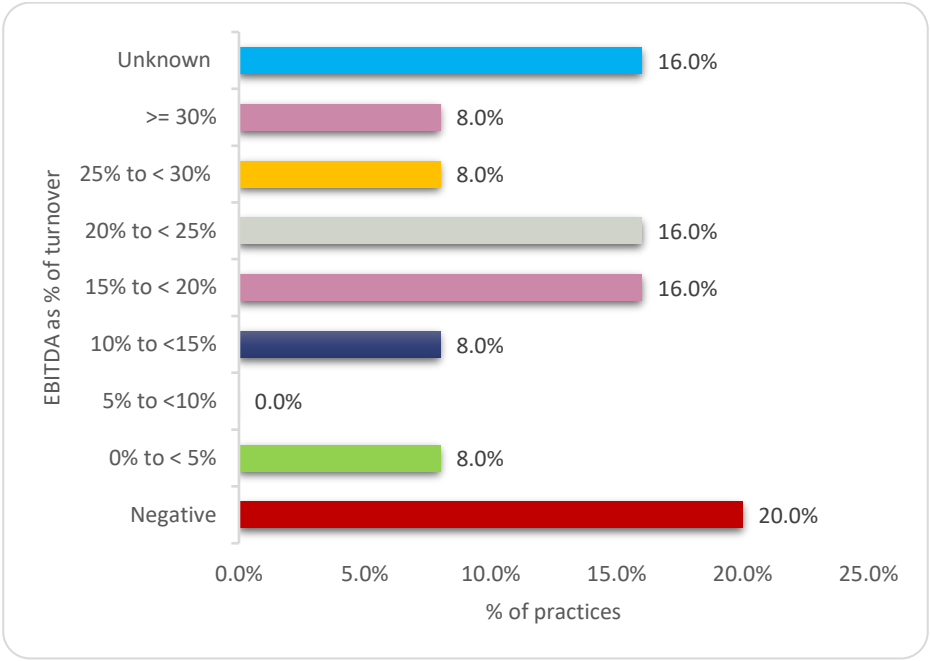
Adjusted staffing costs as % of turnover: Small Animal only



Insight

- "Adjusted" means the inclusion of notional market rate equivalent salaries for the working owners.
- Average adjusted staffing costs as a % of turnover for Small Animal (excluding outliers): **47.1%.**
- Between 5 and 6 Small Animal practices out of every 10 are now reporting adjusted staffing costs of 45% or more as a % of turnover.
- Interestingly, by way of comparison, between circa 5 and 10 years ago, the generally efficient benchmark range for Small Animal was between 38% to 45%. That we are now seeing more than half of practices reporting 45% or more shows that this metric has moved quite significantly in recent years. What has driven this change? Primarily (and perhaps no surprise):
  - higher pay in the sector (this topic being analysed each year in the SPVS salary survey); and
  - team shortages and therefore often higher use of locums.

EBITDA as % of turnover: Small Animal only



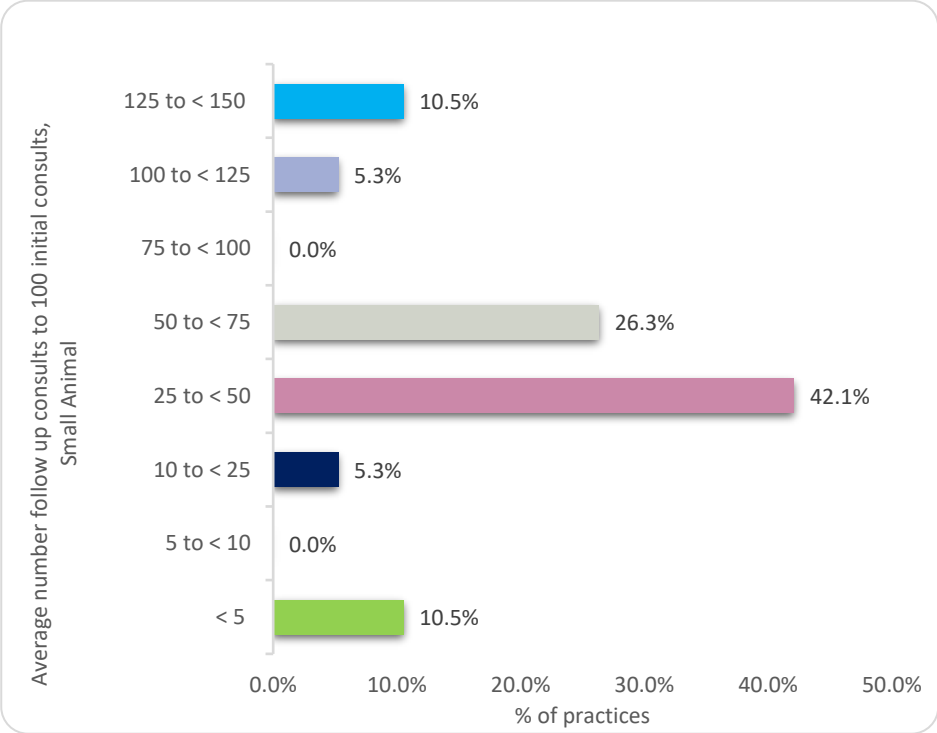
Insight

- Average EBITDA % of turnover for Small Animal excluding negative %s and excluding outliers: **17.0%.**
- Average EBITDA % of turnover for all Small Animal, i.e including negative % and including outliers: 11.9%.
- As a broad-brush guide and purely from a financial perspective once a practice is fully established, i.e. not in the start-up phase:
  - <10%: ideally would be higher than this.
  - 10% to 15%: “okay” to good.
  - 15% to 20%: good to very good.
  - 20%+: very good to excellent.
  - Nb 25%+ is sometimes not sustainable, i.e. there is often a natural maximum for a practice given their particular circumstances. This is not across the board but worth mentioning.
- This all said, we are big believers in that clinical excellence, client care and looking after the team should come first and these should drive the financial numbers, not the other way around. Having sound financial management alongside this is important.

- A comparison to more historic data indicates that, purely from a financial perspective, the strongest financially performing practices in terms of EBITDA relative to turnover, are now performing more strongly, and those towards the lower end have fallen further in some cases. This accords with what we hear in conversations, whereby those practices that have been able to invest in their practices and their teams, are seeing a return on their investment with underlying profit having being sustained or strengthened, i.e. that investment has been worthwhile, providing that pricing increases have at least kept pace with cost inflation.

- Where the gross profit % has increased for some practices, this has sheltered them from the effect of rising staffing costs and overhead inflation. It is clear that a focus on pricing and charging properly is more important than ever, particularly as cost inflation continues to be relatively high as we have headed further into 2023.

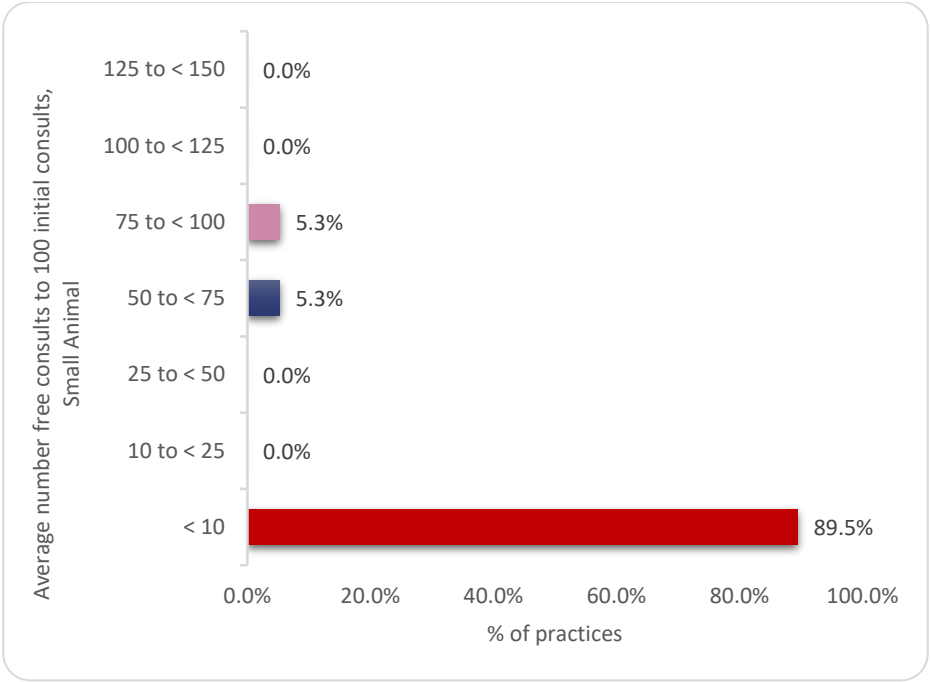
Average number of follow up consults to 100 initial consults, Small Animal



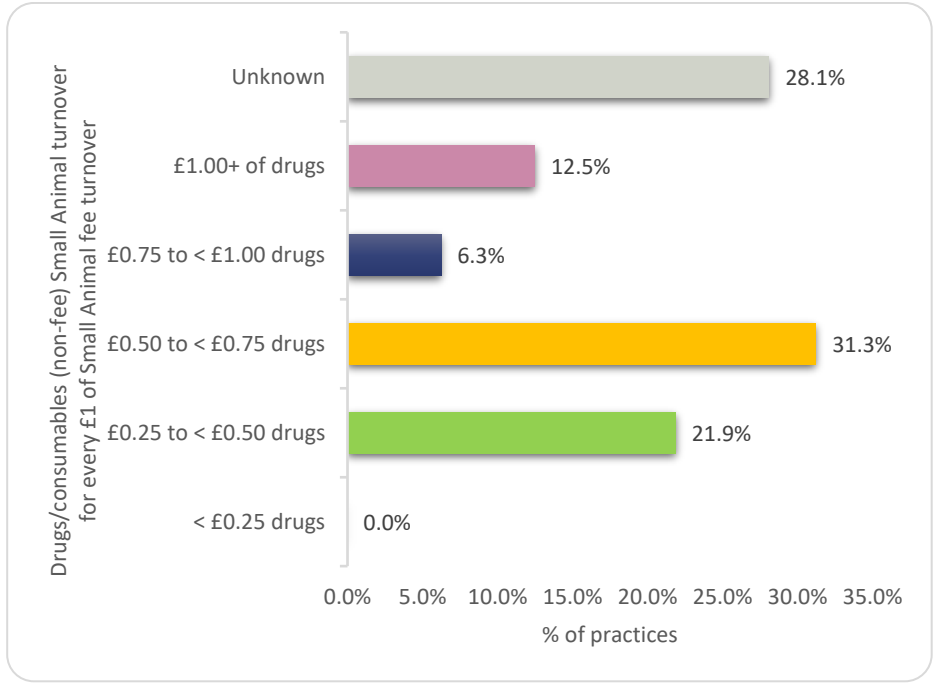
Insight

- Average number of follow up consults to 100 initial Small Animal consults (excluding outliers): **56.**
- This is lower than Hazlewoods' historic benchmark of circa 70 to 80.
- The reason will likely vary from practice to practice, but perhaps the busyness of practices and the sometimes shortage of staff has driven this ratio down. Of course, more initial consults being booked in isolation would also impact on the ratio.

Average number of free consults to 100 initial consults, Small Animal



Drugs/consumables (non-fee) Small Animal turnover for every £1 of Small Animal fee turnover

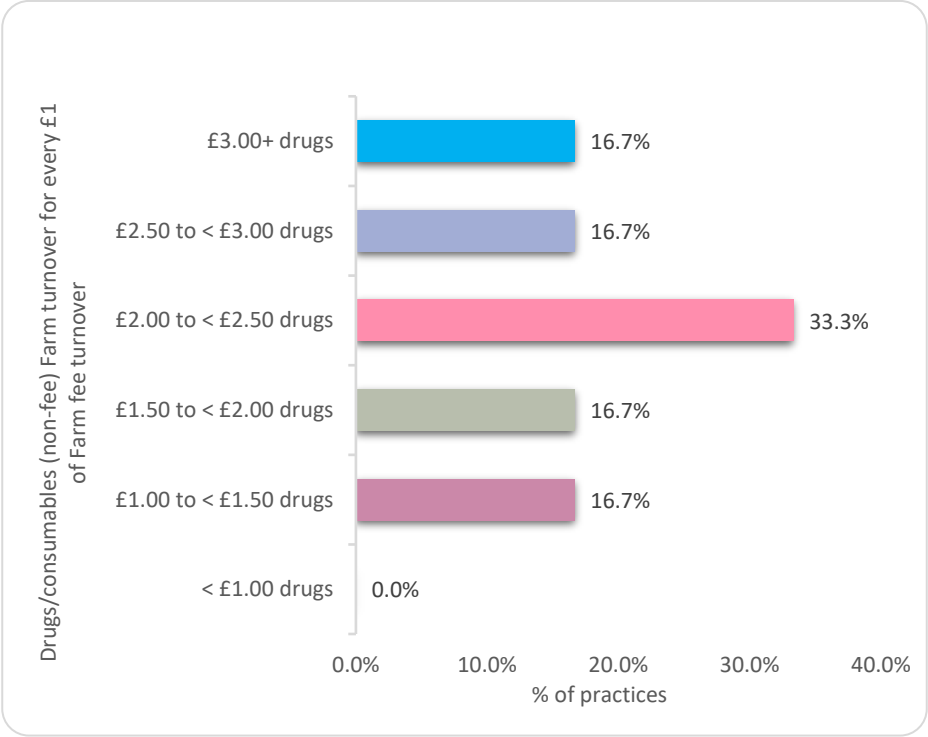


Insight

- Average fee : drug ratio Small Animal: **0.54**. This is a little more fee biased than the pre-Covid Hazlewoods' benchmark of 0.62 and further supports the drive to an increased average gross profit % as detailed above.

4. Financial results: Farm only

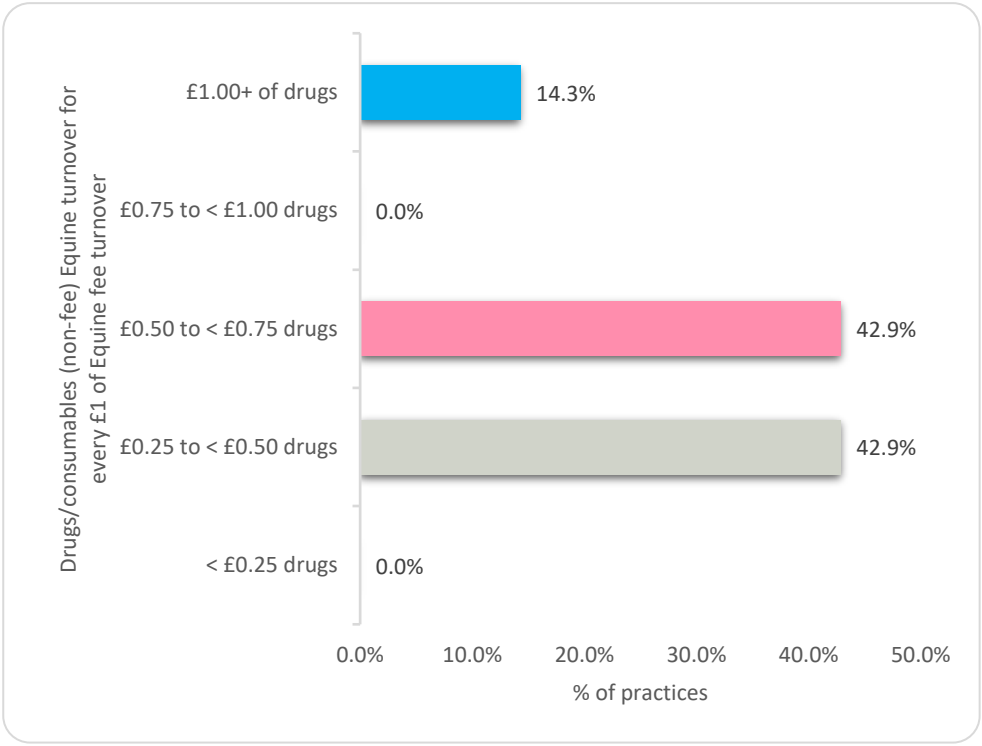
Drugs/consumables (non-fee) Farm turnover for every £1 of Farm fee turnover



- The limited Farm survey population size has limited the meaningful Farm specific results that are able to be presented.

5. Financial results: Equine only

Drugs/consumables (non-fee) Equine turnover for every £1 of Equine fee turnover

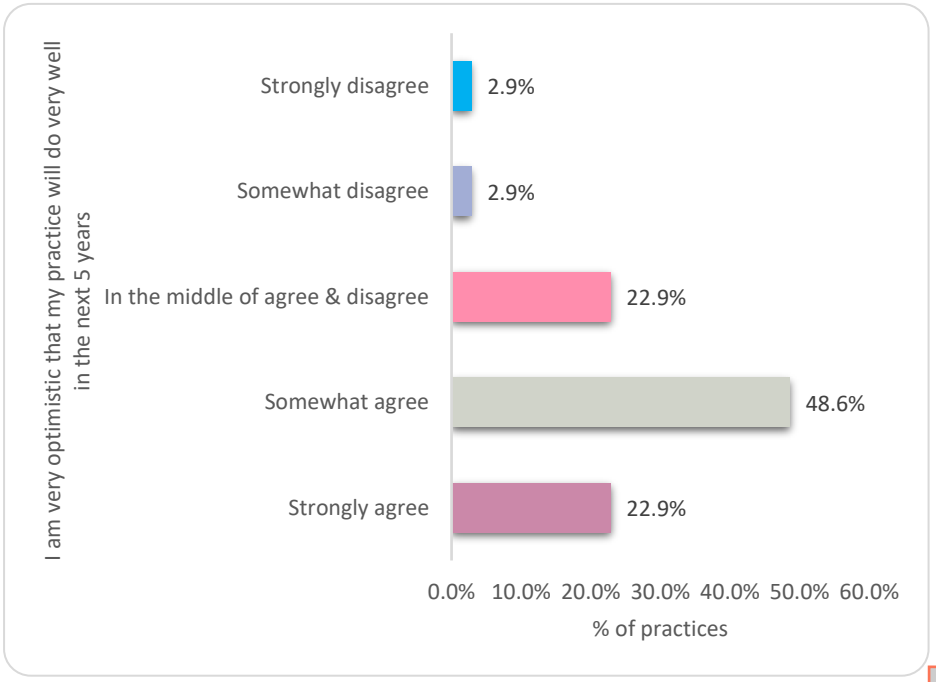


- The limited Equine survey population size has limited the meaningful Equine specific results that are able to be presented.

6. Optimism check-in

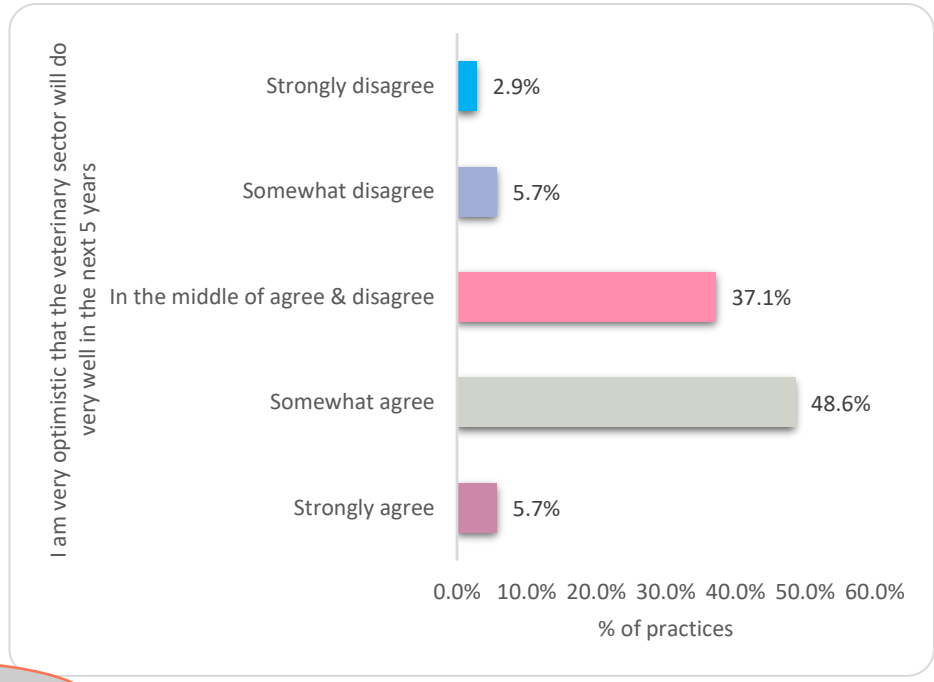
"I am very optimistic that my practice will do very well in the next 5 years."

nb "Do very well" was deliberately not defined precisely.



"I am very optimistic that the veterinary sector will do very well in the next 5 years."

nb "Do very well" was deliberately not defined precisely.



Insight

- Despite the turbulent economic times, on balance, an encouraging level of optimism!

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