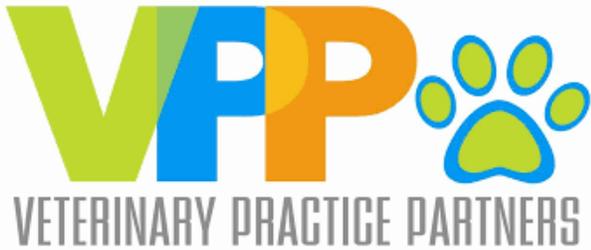


## Private Company Spotlight



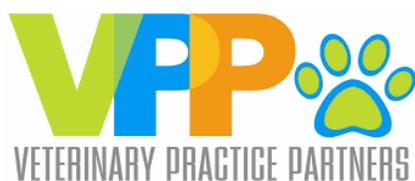
**Equity Research**  
Healthcare

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## Company Snapshot

**61** Animal Hospital Practices

Operating in **21** States

**Unique Co-Ownership Model  
With Practicing Veterinarians**

**Industry-Leading Organic  
Growth and Profitability**

**~1,200** Employees Across  
the United States

**28** Former Associate DVMs  
Who Are Now Owners at VPP  
Partner Hospitals

## Veterinary Practice Partners (VPP); Animal Hospital Operator Our Q&A With John McDonough, Chairman and CEO

### 1. Tell us more about the genesis of the company, your background, and why VPP was founded?

VPP was founded in 2011 by my colleague Rich Lester. Rich noticed a trend in the dialysis centers that were co-owned by physicians—they were consistently in the top quartile of all centers in terms of quality of care, customer satisfaction, staff satisfaction, and financial performance. With this in mind, he saw a whitespace in the veterinary market, which was suddenly being consolidated by corporate groups owning 100% of practices—a trend that had been ongoing in human healthcare for many years.

VPP's co-ownership approach allows veterinarians the ability to provide local leadership while still participating in the benefits of ownership, without having to manage the day-to-day business headaches that take them out of the exam room or away from their families.

Given my background working with organizations that partner with caregivers for the past 25 years, I have witnessed the power of working with doctors in partnership firsthand. Given my experience, Rich and Pamlico asked me to join the board in 2017, and when Rich was ready to step aside after nine years of running VPP, this was a logical next step for me. It has never been more evident that corporate-doctor partnerships can be an especially strong business model than it is now as we endure the COVID-19 crisis with our hospitals.

### 2. What are the key areas, or pain points, in the veterinary care experience that your organization hopes to address?

Most owners did not go to business school, and many veterinary programs are just starting to scratch the surface of teaching business basics as part of their curriculum. We lean on our complementary skill sets—VPP's operational, marketing, and business acumen and our partners' clinical and client expertise—to help our practices grow, while also affording our partners more time to follow their passion for medicine and service.

Post-2008, there has been growing interest in the veterinary space among private equity groups, as the sector has proved itself to be an area that is resistant to recessions. The injection of PE dollars into the industry has driven up practice valuations, leading more owners to sell to corporate groups and creating a barrier to entry for their associates to one day become owners. One of the core values VPP was built on is ensuring veterinary ownership in a changing market, and we are very proud to say that, as of today, we have helped 28 DVM (Doctor of Veterinary Medicine) associates at our practices become owners at their hospitals.

### 3. Talk about the market opportunity and organization's ability to scale?

While corporate consolidation in the veterinary space has been ongoing for more than a decade, the market is still large and full of opportunities—especially for groups like ours that are doing things differently. There are many owners who are thinking about their next steps and exit planning but cannot envision themselves selling 100% of their practice to a corporate group—one which could potentially change the culture of the practice they have spent their lifetime building.

Many DVM owners also are focused on preserving their legacy in the community. When we have conversations with owners, one of the first questions we ask is if they have any associates who could potentially be interested in owning down the line. We are not ever looking to own 100% of any practice—something that sets us apart from the other groups doing partnerships out there—so succession planning is important. We look to preserve each practice’s unique culture and have local leaders in our partners to help drive efficiencies while championing quality care within the practice. In that way, we really stand out from the crowd to potential partners, and there are many practice owners who find our model to be a refreshing change of pace from what they are hearing from others.

When it comes to choosing which practices and owners to partner with, it is important for us to ensure that motivations are aligned from the start for the best outcome. We are definitely a bit more selective than many of the other groups out there because we know that aligned goals lead to the most successful partnerships. It is with this in mind that we choose partners carefully, which allows their hospital to integrate smoothly and positions VPP to scale quickly.

#### **4. What are the key market tailwinds that you believe can help foster growth going forward?**

Prior to March of 2020, I would have pointed to statistics like sustained growth in pet ownership per household (as 56.8% of U.S. households own a pet), increased millennial pet ownership, millennial willingness to spend on their animals, and a roughly 5% year-over-year increase in pet spending across the board. But during the COVID-19 crisis we are seeing a different, and much more compelling, story take shape.

While the global economy remains on extremely unstable footing, our revenues after the initial drop have leveled off. Even in extremely uncertain times, the human/animal bond remains, and pet owners are still willing to spend on their pet’s care. Additionally, we are seeing unprecedented increases in both pet adoption and sales as Americans have more time at home. Many forecasts show that while there will be a decrease in first half 2020 revenues, the industry should expect a back-half resurgence as clients look to reschedule missed procedures and wellness care.

#### **5. Can you discuss your facility base and revenue model in a bit more detail?**

VPP’s family of 61 practices are general practice (GP) clinics ranging from 3 to 10 doctors. We look to partner with practices that have at least three full-time doctors, are located in growing metropolitan statistical areas (MSAs), and are generating at least \$1.3 million in annual revenue. Our ideal partner is one who also is looking to continue owning and practicing in the clinic for at least two years.

#### **6. What is the main competitive set for your organization?**

One of the things that I find so interesting about VPP is that—in such a cluttered competitive landscape—we are truly unique. While many of our competitors offer partnerships as a way to entice owners who are unsure about selling away their practice, most still want to own 100% of that practice at the end of the day. Once that happens, veterinarians will never again be owners in that practice.

Our goal is to always have a partner in the hospital providing local leadership, and while we do offer a safety net for an owner to retire at any

time, we look to always have a successor in line to step into that owner’s shoes. We’re 100% committed to the partnership model, and to our partner doctors.

#### **7. Anything else you would like to add?**

I have always been in awe of the power of the partnership model, and never more so than over these past several weeks as we have weathered the COVID-19 crisis with our partners. Our team has been in constant communication and collaboration with our doctor partners, providing strategic guidance and operational support while our partners offer local leadership and clinical services. We have managed to quickly pivot in order to safely provide essential clinical services while also having the capacity to make rapid decisions to support the business in a new landscape. Our complementary skill sets truly resonated to create something sustainable in very uncertain times.

Additionally, within VPP’s co-ownership model, we often think in terms of “one team” across our corporate staff and all of our hospitals. Our “one team” approach drives a lot of our symbiotic decision-making. In the first few days of the pandemic, we could see our hospital staff were going to be financially burdened. We raced to set up an employee-directed assistance fund to aid our teammates in need. It has been incredible to watch our VPP family members rise up to assist one another: To date, more than 100 of our employees have received aid through the fund. I am incredibly proud of the good work we have done, and will continue to do, not only during this health crisis, but in the months and years that proceed it.

## Company Background

Veterinary Practice Partners (VPP) is a trusted business partner to veterinarians. The company co-owns practices in partnership with veterinarians and works closely with its partners to grow and manage each practice, all while retaining its unique identity and culture.

VPP's family of 61 practices in 21 states has enjoyed industry-leading growth and profitability improvements. Currently, VPP has 66 partners, 28 of whom had never been owners before.

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DOW JONES: 24633.90  
 S&P 500: 2939.51  
 NASDAQ: 8914.71

Additional information is available upon request.

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