

All creatures great and small

The furrier end of the healthcare market has dynamics those with stakes in human care would be jealous of, finds **Ploy Radford**, but which part of it should investors pursue?

There is no denying that animals of all shapes can hold a special place in the hearts of many people. Given market activity of late, the welfare of animals is a cause dear to various investor portfolios too, if for perhaps less sentimental reasons.

London-listed CVS, an animal healthcare services giant with 268 practices plus other ancillary options, saw a significant share price rise in the last six months. Between 11 September 2014 and 10 March 2015, it rocketed up by 33.8% from 349.75 pence to 468 pence per share.

Meanwhile, CVS' former owners Sovereign Capital bought Willows Veterinary Centre & Referral Service in September 2014. "We've been interested in re-entering the vet market pretty much since we came out of it," says Neil

Cox, director at Sovereign. 2014 also saw August Equity snap up Westpoint Veterinary Group.

What is particularly interesting about these three examples is that they show investors placing their bets on markedly different parts of the veterinary services market.

The sub-sector that has traditionally seen the most investor activity is the 'companion animals' market, so small pets like dogs, cats etc. Around 85% of vet practices focus on small animals according to data by Mansfield Advisors with the rest focused on farm animals and horses. The most prevalent type of service that caters for these small animals are first opinion practices – the animal world's GPs. The vast majority of CVS' services are first opinion practices and August Equity's previous purchase in the veterinary space was Independent Vet Care (IVC) which the private equity firm

grew from 20 first opinion practices to over 100.

The appeal of first opinion companion animal practices is not hard to identify. For a start, according to Mansfield analysis based on Office for National Statistics data, average UK household spend on veterinary and other pet services grew through the recession. Between 2010 and 2012 it increased from £1.9 billion to £2.1 billion, a CAGR of 5.4%. Sure some vets reported that the number of routine procedures such as vaccinations tailed off in the worst years but people still obviously coughed up when the animal got sick. At the end of the day, people care about their pets and will pay because there is no other option but to watch the animal suffer. A growing insurance market has supported this sentimentality. Analysis by Mansfield Advisors shows that the value of gross written premiums in 2012 was £664 million, representing a CAGR between 2008-2012 of 8.1%.

On top of these favourable statistics, "there are nearly 5,000 first opinion practices in the UK... so there's a huge opportunity to further consolidate that market, which we started with CVS," says Cox. "There's still a huge amount to go, probably less than 20% of that market is in corporate ownership as the vast majority are small partnerships." After a legislation change in 1999, non-vets can own practices while retiring vets in partnerships are desperate for someone to buyout their share as the increasingly female workforce means more junior vets





just want salaried positions. (Female vets are simply more likely to work part-time or take a career break.) In other words, the first opinion companion animals practice market provides an excellent buy and build play.

There is however, a size problem. If you're an investor that operates in the upper mid-market "there's nothing for you unless you take CVS private" warns Victor Chua, partner at Mansfield Advisors. IVC is owned by Summit Partners, Companion Care and Vets4Pets are owned by KKR, while Goddard Veterinary Group is owned by the son of the founder who is reportedly not looking to sell. Not all is lost though. "If you're a smaller firm in that lower mid-market size then yes there are definitely still things you can do," says Chua.

Or you could look higher up the care ability chain like Sovereign has with its acquisition of Willows.

When a pet requires treatment for something like cancer or a rare skin condition that the local first opinion vet doesn't feel comfortable treating themselves (whether through lack of experience or facilities), they can refer them on. This referral could be to what is nominally a first opinion practice that has someone with a special interest in ophthalmology and a Certificate in Advanced Veterinary Practice from the Royal College of Veterinary Surgeons (RCVS) to prove it. Or the animal could be sent to a specialist referral facility where there are clinicians with an RCVS or European diploma in a speciality. Some may be a clinic with only one or two specialities, such as Sarah Smith Cardiology, others are multi-disciplinary centres, like Willows or Dick White Referrals.

The specialised service offered by referral centres means they can charge higher prices and bring in higher revenues. Consults can start at £150 and surgery could cost up to £5,000. Referral centres appear to have survived the recession as well due to the life-threatening illnesses

they cure and the affection people have for their pets. There may be only 18 multi-disciplinary referral centres but Mansfield analysis shows they took home 6.1% of the £2 billion spend on pet vet care in 2012.

With this referral centre end of the market you do hit a similar problem as with first opinion practices – there's not swathes of them to buy. There are only 18 multi-disciplinary secondary referral centres, six of which are run by universities and Sovereign has gone and acquired one of the biggest and is looking to expand (for an in-depth look at the referral market and Sovereign's plans see page 32) meaning competition for the others is going to be fierce. There are many more practices that carry out one or two referral services but their share of the spend on pet vet care is significantly smaller than multi-disciplinary centres (in 2012 it was 2.6%) due to the fewer disciplines offered.

Another alternative for investors is moving up in animal size and examining the practices dedicated to equine and farm animals. Cox is curtly dismissive, however, of the opportunities in the equine market "it tends to be less profitable and more problematic in terms of collecting in the debts from horse owners".

This leaves the farm animal market – which is where August Equity's portfolio company Westpoint operates. As mentioned earlier, farm practices make up a much smaller part of the UK vet practices. This is in part a reflection of the fact that there fewer farms. The days of the smallholding with a few cows called Daisy and Buttercup roaming around are by and large over: farm vets are treating a smaller number of herds with vaster number of animals.

These vets work to a very different model than small animal vets. They go out and visit the farms where the livestock are and often on a regular basis as part of a herd health plan.

Scale therefore becomes a key challenge

of this sub-sector of the vet services market. "Farms can be very disparately based so you need to have good geographical coverage," points out Mo Merali, head of private equity at Grant Thornton, who advised August Equity on the Westpoint acquisition. "You need to have the ability to get around and have that regional depot presence." Otherwise you're not going to have many clients.

Diseases, such as foot and mouth and tuberculosis, that ravage the farms are also a major detriment to vets once they break out. When farmers see their stock culled and often repeatedly, they understandably give up, meaning there's one less client for vets. In light of these things, the availability of suitably qualified and motivated vets is another challenge (one Westpoint battles by providing education and training placements to University of Surrey students).

However there are plenty of points in its favour of the farm practice space. The growing population naturally results in increased need for food and thus vets to keep the animals healthy. The regulation that has sprung up as a result of diseases also make farm vets very important.

Furthermore, "the agricultural space does appear to be very fragmented" according to Merali and help achieving scale would be useful for farm practices. "It's particularly a volume game in the pharmaceutical space where group buying online [by farmers] is becoming more prevalent versus the traditional model of vets selling direct to farms, and if you have purchasing power you can get pricing efficiencies," says Merali. "Part of August's thesis is to build up scale and then provide uniformity around business models and purchasing." So the dynamics are there for another buy and build play.

Unfortunately, in what seems to be a common refrain for the vet services market, "there aren't the usual plethora of businesses to just go and buy" notes Merali. With 17 branches, Westpoint is one of the few farm practices of a good platform size for mid-market private equity.

So in conclusion, the vet services market has factors working in its favour but mostly for those who think small. Only investors willing to buy small businesses, particularly those that cater to small animals, are likely to have any joy until the sector's incumbent private equity backers sell on. ■

Pet plan

Sovereign Capital has spotted a new opportunity in complex animal care. **Ploy Radford** visits Willows Veterinary Centre & Referral Service to find out more

State of the art operating theatres, x-ray suites, the latest MRI and CT scanners, clinicians specialising in a range of disciplines such as neurology, ophthalmology, oncology... *HealthInvestor* could be forgiven for thinking at first glance that it was walking around a hospital for humans. A couple of the staff are former NHS employees, for goodness sake.

However, Solihull-based Willows Veterinary Centre & Referral Service is in fact aimed at the 17 million cats and dogs resident in UK households. Indeed its reach is nationwide with referrals to the facility coming from as far as Scotland and the Channel Islands.

Founded in 1992 by vets Malcolm McKee and Peter Renwick (although at a different site), Willows is one of only 18 multi-disciplinary secondary referral centres in the UK (*see box to right*) and possibly the biggest. Its raison d'être is to provide highly specialist care for sick animals that first opinion practice vets have passed onto it (although Willows does have a small first opinion practice as well).

So mainstream it ain't but Sovereign Capital believes demand will only increase for these centres and took a gamble on Willows, snapping it up last September.

Sovereign Capital director Neil Cox says his faith is backed up in part by a growing insurance market. "That insurance net, in the way insurance should, provides the funding and ability for vets to carry out more complex procedures on animals."

Willows chief executive Lynne Hill,



Multi-disciplinary referral centres in the UK

- 1 Anderson-Moores Veterinary Specialists
- 2 Animal Health Trust
- 3 Croft Veterinary Referrals
- 4 Chestergates Referral Centre (part of CVS)
- 5 Davies Veterinary Specialists
- 6 Dick White Referrals
- 7 Edinburgh University Veterinary School Teaching Hospital
- 8 Glasgow University Veterinary School Teaching Hospital
- 9 Langford Veterinary Specialists (wholly owned subsidiary of Bristol University)
- 10 Liverpool University Veterinary School Teaching Hospital
- 11 North Downs Specialist Referrals
- 12 Northwest Surgeons
- 13 Pride Veterinary Centre
- 14 Royal Veterinary College Teaching Hospital
- 15 The Queen's Veterinary School Teaching Hospital (part of Cambridge University)
- 16 VRCC
- 17 Wey Referrals (part of CVS)
- 18 Willows Veterinary Centre & Referral Service



who is a council member and former president of the RCVS, adds that education – “there are now European diplomas so there are more places where you can become a specialist” – and the resulting shifting nature of first opinion practices have helped create this market too. “Nowadays you can get practices that only do spays, vaccinations and simple procedures so they have to send other cases elsewhere,” says Hill. “Maybe they don’t have the facilities or the skill because they don’t see enough of a certain case so it’s better to send it on. In James Herriot’s times, there was nobody to send the case to so you had to have a go, but that is no longer acceptable.”

Advances in technology that have made equipment such as MRI scanners cheaper have also allowed private referral centres to spring up rather than let advanced care be the remit of universities.

Plus, let’s not forget that at the end

of the day, owner sentiment for their canine or feline companions is strong. “People say ‘I can have an MRI, why can’t I have one for my cat’,” points out Hill.

And for the doubters, surely the mere physical presence of Willows is a testament to market demand. In a move that must have caused some sleepless nights, McKee and Renwick opened the current state-of-the-art centre in summer 2009, less than a year after Lehman Brothers collapsed. Yet regardless of that the centre has grown rather than folded. “During the recession the referral market was increasing at 5% - 10% and Willows continued to grow,” says Hill.

The particular appeal of Willows is down to a number of factors. For a start, Willows is in a good geographical position; it’s in the Midlands with a lot of people within an hour and still easy to get to for those coming from further afield.



Willows Veterinary Centre & Referral Service

Then there is the fact that it is multi-disciplinary. As mentioned in ‘All creatures great and small’ (see page 30) there are middle tiers between first opinion practices and multi-disciplinary referral centres. They can be cheaper than somewhere like Willows but as Cox points out, Willows is “a one-stop shop” which means it “can treat an animal in its entirety”; useful if a case requires ▶



▶ more than one discipline to treat. Plus, Willows has more than one specialist in some of the more popular disciplines and they are all full-time which doesn't always happen in the middle tier practices. This means that if there are post-surgery complications there is no danger that when the owner brings the animal back there isn't someone qualified around to help. As Willows is open on weekends and out-of-hours to midnight, clients really can feel they are getting value for money too.

Hill is keen to emphasise, though, it is the attitude of the centre forms an integral part of its success. "A client told me they asked a vet why they refer people to Willows and the vet replied 'it's because they make me and our clients feel special'," Hill says. "We are the top end of the market."

In many respects, Willows is a business to business play – it relies on first opinion practices to feed work their way. This means marketing and reaching out to them is one of the biggest challenges. Good communication around

the cases passed between them is key. "We pride ourselves on the fact that our vets talk to first opinion practice vets directly, give them advice on the phone and ensure that reports go out to them quickly," says Hill.

Willows also does a lot of continued professional development (CPD) for practices. Vets and nurses have to do a certain number of hours of CPD a year to keep their licence, so Willows will go

Willows' specialities:

- Anaesthesia and analgesia
- Dermatology
- Diagnostic imaging
- Internal medicine
- Joint replacement
- Neurology
- Oncology
- Ophthalmology
- Orthopaedics
- Soft tissue surgery
- Spinal surgery



Lynne Hill, chief executive, Willows



out to practices to do talks that help the practice staff meet their quota. Meetings are also held within Willows where vets can bring in x-ray scans or CT scans and Willows staff will help them to understand the result better. “That helps keep them bonded to us,” Hill explains.

Those familiar with the dynamics of the private hospital market and its troubled relationship with insurers, are probably curious whether this is mirrored in the vet space. Thankfully for Sovereign, the answer is no. “It’s a few years behind where the human healthcare market is and is much less confrontational,” says Cox. Also as Hill points out, given how fragmented the market is who is the insurance company actually supposed to barter with?

There are a variety of insurers out there with Petplan being the most well-known and most esteemed but many that are very poor meaning often people end up having to pay top-ups. Hill tells of one insurer who has capped the price for a referral consult at £90. Consultations at Willows range from £150 to £270

‘That insurance net, in the way insurance should, provides the funding and ability for vets to carry out more complex procedures on animals’

Neil Cox, Sovereign Capital

for an hour to an hour and a half of a specialist’s time. X-rays are a few hundred pounds and surgery could cost up to £5,000.

If insurance policies are poor, you could see how the prices could be a problem. If pet owners feel they can’t afford a referral centre or the prognosis is too poor to be worth the financial risk, they can just ask the first opinion vet having a go at treating the animal or put them down. The growth Willows has experienced is a testament to human willingness to pay for their pets’ care.

While filling up nicely, though, Willows isn’t yet bursting at the seams – “there is a bit of excess capacity that we could fill up there” admits Cox.

Of course just filling up a little bit of excess capacity is hardly the pinnacle of Sovereign’s ambitions for Willows. Firstly there is plan for organic growth through bringing in new specialisms – the centre has already hired its first dermatologist.

According to Cox, Sovereign would also like “to acquire other multi-disciplinary referral centres and create a national network of these.” Or Sovereign is even happy to build a new referral centre if it can “identify an attractive location with the appropriate demographics”. What this move does is bring together a group of highly qualified veterinary surgeons and creates a corresponding body of knowledge which then makes it easier to recruit more surgeons. That way, the Willows brand becomes synonymous with cutting edge treatment and more referrals will come in.

The other path being considered is acquiring first opinion practices. “Acquiring practices that are around as a hub and spoke model to a referral centre is obviously a good strategy and give you some protection in some ways,” says Hill. The team is looking for practices with a few vets at least that have good marketing policies, an emphasis on customer service and are professional.

There are high ambitions then for Willows. But Hill is confident they are achievable: “People are very willing to spend on their pets as long as they get good service”. As her claim has stood the test of a recession, Sovereign’s pet empire strategy could pay off. ■