

# Pace of UK veterinary consolidation stutters

## Pets at Home hospital closures anticipated

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The rapid consolidation of veterinary practices by large corporations in the U.K. is on pause.

Pets at Home, one of the country's biggest veterinary companies, said Monday that 55 of its 471 practices are struggling to survive and that it may close as many of 30 of the struggling hospitals.

The company, which is traded on the London Stock Exchange, reported an 81 percent drop in pretax profit for the six months through September.

Today, a second veterinary consolidator, CVS Group, spooked investors by forecasting lower profit margins this year, sending its shares tumbling 13 percent in early morning trading.

The downbeat developments follow ultra-fast growth in the size of big veterinary corporations. The phenomenon has dramatically shrunk independent practices' share of the U.K. market.

According to the Federation of Independent Veterinary Practices, a nonprofit association established in 2016, half or fewer than half of practices in the U.K. are independently owned. Pets at Home alone reported adding 250 practices to its stable in the past five years, more than doubling in size.

### **Buckling under higher costs**

That picture of apparent prosperity is changing. Pets at Home, which also is a pet-supplies retailer, said the financial hardships at 55 practices are due to cost challenges. They include "industry-wide" skills shortages, which are pushing up the price of labor.

The company also acknowledged that some of the hospitals are struggling to pay the fees it charges for operating under the Pets at Home umbrella.

That umbrella is a joint-venture model under which veterinarian partners own a stake of up to 50 percent in a hospital, a share potentially funded by a loan arranged by Pets at Home. The company provides services such as finance, marketing and human resources. It also offers field support in areas such as business development and promotion of clinical best practices.

Pets at Home said it will buy out its partners' shares at the 55 struggling practices.

"I recognize we have grown at pace and, more recently, have seen the pressure that rising costs and our fees are placing on this young business," CEO Peter Pritchard said.

The company said it is re-examining its fee structure. Gillian Hammond, the head of media and corporate affairs, declined to comment on the size of the fees Pets at Home charges.

She also declined to comment on the ages of the struggling practices, and whether they were set up from scratch or acquired by the company.

"Because of our model, our practice [properties] are all individually-owned and separate businesses, and therefore a high degree of confidentiality is required," she said.

"What I can say is that we have a vast proportion of the estate which are well-performing, profitable practices," she added. "We're taking action where we believe it's genuinely needed, which is the right thing to do for our partners."

Pets at Home owns two brands, Companion Care, introduced in 1999; and Vets4Pets, acquired in 2013. It also has several specialty-referral practices.

In all the practices Pets at Home is buying back, joint-venture partners would not be expected to repay loan balances to any parties. Pets at Home said it would settle any liabilities for third-party bank loans and leases on behalf of its partners.

### **Demand for locums surges**

CVS, for its part, did not mention any impending practice closures in its profit warning today. But the company did indicate that its network of 498 practices isn't performing as well as it had hoped.

Salaries for nurses and "certain cohorts of veterinary surgeons" have since Jan. 1 increased at a rate above inflation, CVS said. It noted also that day rates for locums have jumped about 14 percent in the past year; the company uses non-employee relief veterinarians to maintain flexibility.

In general, the U.K. is [grappling with a shortage](#) of veterinarians in the wake of its vote in 2016 to leave the European Union, because about a quarter of the country's veterinary workforce hails from the European mainland. Some already have packed their bags, citing uncertainty around immigrant rights and a rise in anti-immigrant sentiment caused by the vote.

Separately, individual veterinarians previously contacted by the VIN News Service [expressed reservations](#) about working for corporations, saying that although they were offered higher pay, they also were pressured to generate more revenue.

Working for a corporation such as CVS, which buys out practices entirely, also limits the ability of veterinarians to take an ownership role in a practice.

CVS said today that it has introduced new workplace flexibility initiatives, "given the evolving demands of the modern clinical workforce and our clients." These include allowing staff to work condensed weeks; and job sharing of certain clinical and leadership roles.

### **Growing, but more slowly**

Despite this week being tough for both companies, neither Pets at Home or CVS said they planned to stop acquiring or building new practices altogether.

Pets at Home said it aims to keep growing but more slowly, with 20 more openings during the rest of the fiscal year, which ends in March. In the next fiscal year, it plans to add "up to 10" practices, working toward a target of "up to 700" practices across the U.K.

"This enables us to focus attention on the existing practices and grow in a sustainable manner against a backdrop where veterinarian shortages are likely to persist," the company said.

CVS said it expects to complete more acquisitions this year, next year "and beyond." It didn't give specific targets. It also suggested it would build practices in newly developed areas known as greenfields.

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