

1,001 DALMATIANS (AND COUNTING): MAPPING AN EXIT STRATEGY FOR A VETERINARY FOUNDER

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Dalton Wunder, at 69, loved working as a veterinarian and managing the practice that he started in 1978. As of 2016, he owned the practice with two other long-time veterinarian partners: one who started in 1979 and the other in 1994. He considered retirement for some time, but delayed primarily because he didn't know how he would spend his time after retirement. Venture capital buyers recently presented offers to purchase the entire practice, with a two-year phase out period for Dalton. There was a deadline on the latest offer, which pushed Dalton to consider the best offer and three other retirement transition options. He felt a major decision needed to be made on the next step into retirement, which could be the big step where he moved on and detached from the practice completely. This decision-making case asks the reader to step into the shoes of Dalton to evaluate all options, while weighing personal and professional motivations as well the impact his final decision has on other parties.

WHAT IS THE NEXT STEP?

After Dr. Dalton Wunder, 69, finished his short speech thanking everyone for attending the annual fundraiser to benefit the Davidson County (Nashville) Humane Society, he walked back to his seat passing many warm smiling faces of veterinary practice employees and his longtime clients. He sat for a moment and considered if he would be part of this event next year. Would this event even continue when he was no longer a partner in the sponsoring veterinary practice? Although Dalton's partners felt he was a highly-skilled veterinarian and manager of the practice, he also suspected that he needed to be ready for the next step, if that situation changed. But what was the next step? He explored a few options, and some of those options were prompting Dalton to make a decision very soon.

EARLY BACKGROUND ON DALTON WUNDER

Dalton was the eldest of three children, with a younger brother and sister. When Dalton was 13 years old his father died. He and his brother made a pact that they would always take care of each other and their younger sister. To honor this deal, Dalton immediately started working for a local veterinarian, Dr. Stewart. Dalton observed that he shared Dr. Stewart's passion in caring for animals. The shared passion, in conjunction with the respect he saw Dr. Stewart received from by his clients, employees, and the community led to Dalton's decision to be a veterinarian. Dr. Stewart, a wonderful mentor, supported Dalton's efforts through focusing Dalton on education. Dalton earned a full scholarship to attend undergraduate studies at Tennessee State University. In addition, Dr. Stewart helped to pay for Veterinary Graduate School at Auburn University.

STARTING AND GROWING HIS OWN VETERINARY PRACTICE

After graduating from the Veterinary Medicine program at Auburn in 1973, Dalton returned home to Nashville, Tennessee. After working for Dr. Stewart for four years, he realized that he was capable of and interested in starting his own practice. Dalton worked for four months out of his truck, making house calls caring for large animals (i.e. horse, cattle). Then, in 1978, he invested \$25,000 in a double-wide trailer in a rural area just outside of Franklin, TN. After a year of operations, Dalton's positive reputation grew and Dalton found himself constantly busy. He was the only person on-call, which meant he needed to be available to work all of the time. To serve the growing client base and share on-call hours, Dalton decided to hire a recent graduate, Dr. Thomas ("Oscar") Rapport, into the practice.

Oscar was capable of treating large animals, but focused more on dogs and cats. The increased focus on small animals, which are brought to the facility, pushed Dalton to realize that they needed to be in a more populated part of town. In 1980, Dalton bought land in a busier part of the Nashville suburbs and built the Franklin Animal Clinic. The new building was larger and allowed for adding another veterinarian if business continued to grow.

In 1980, Dalton met his future wife, Bella. She was a client who loved horses and practiced dressage. Dalton fell for her instantly and they married after a short courtship. They had two children, Michael and Abigail, back-to-back in 1982 and 1983. Business continued to grow based on strong client service and the city of Nashville's growth which extended and developed to where the facility was located. Dalton and Oscar worked together and plans were made for Oscar to become a co-owner and partner of the practice. By 1994, Dalton and Oscar found they had reached a point where revenues were strong and they needed help. They hired a third veterinarian, Dr. Gretchen Sadie, into the practice.

The three veterinarians, the support staff, and the continued growth in revenues led to a decision that a larger facility was needed. Dalton owned the land directly behind the veterinary practice and began working to design a new facility in 1996. The larger (and current) practice was completed in 1997 and provided ample space to treat many animals, plus included a small apartment which served well to hire veterinary interns who needed a place to stay.

The practice continued to grow and the partners made the decision to stop visiting farms and serving large animals in 2006. They had sufficient business with small animals, primarily dogs and cats, to keep them busy and profitable. The operation continued structured the same, with the veterinarians (Dalton, Oscar, and Gretchen) serving small animals. See Exhibit Two for an organization chart of employees and roles.

THE SUCCESS OF THE PRACTICE

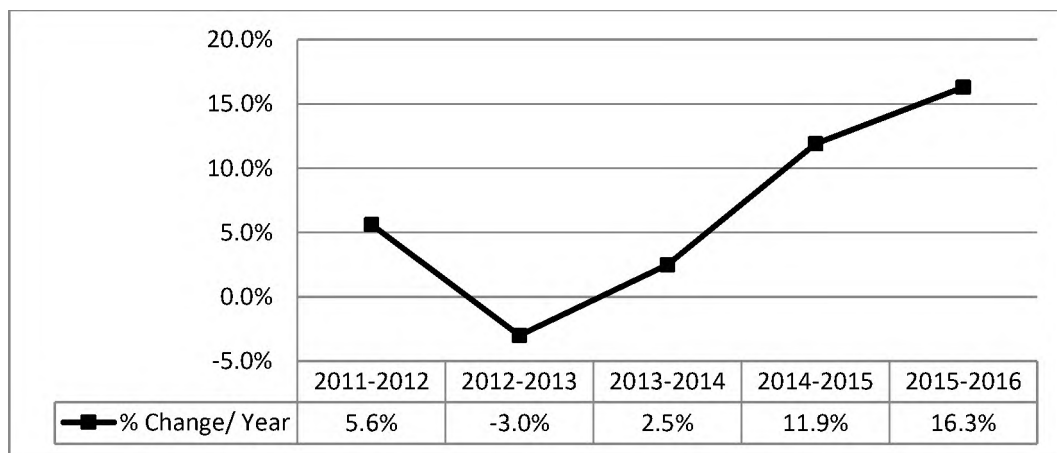
In addition to being a skilled veterinarian, Dalton was also highly business-minded and relationship focused. He enjoyed completing payroll, the monthly financials, and any tax-related information for the business. His ability to listen, his high level of empathy, and his desire to understand made him effective at managing and meeting his clients' needs. As his partner, Gretchen, shared in an interview, "Dalton clearly understood the relationship of networking as a key driver of a successful business. Not only did he understand it, but thrived at building and sustaining networks." Dalton himself admitted that he loved (1) being a veterinarian, (2) managing the business, and (3) talking with and meeting people. He desired to own a business that had a reputation for treating everyone fairly, from clients to employees.

In order to treat people fairly, Dalton involved those affected in the decision-making process. As his other partner, Oscar, noted, "Dalton was open to sharing all relevant information and considering the feedback of all parties prior to making decisions. I trusted Dalton because I don't think he's ever made a decision that I disagreed with, after he explained the reasoning." Dalton did like making decisions, even when he knew everyone would not be thrilled with the outcome. He admitted that he grew quite accustomed to the control he had as the founder and leader of the organization, where he had the final say. He indicated that it would not be comfortable to him to be involved at the practice and not have decision-making authority. As he had become very accustomed to the leadership role, he would not thrive nor enjoy working in the practice in a drastically different role. Interestingly, although Dalton had invested his life building the practice, he did not care to leave any form of personal legacy behind. Rather, he cared more that, when he left, the practice would continue to be a place where owners, employees, and customers all felt welcome, comfortable, and happy to be there.

Gretchen felt the open and inclusive environment which Dalton fostered in the practice led to employees feeling respected and was a main driver of the success of the practice. An open environment bred low turnover and facilitated high staff engagement levels, which meant the clients were consistently dealing with the same personnel who knew and understood their animals and their needs. As a result, the practice posted relatively consistent growth in revenues over the past five years (see Exhibit 1).

EXHIBIT 1

Earnings Percentage Change by Year



The consistent strong performance of the business allowed the owners to pay off all debt in 2008. In addition, profitability provided for events that help the morale and culture including bringing in lunches, having office holiday parties, providing benefits, and allowing for employee bonuses and raises. The consistent revenue growth also provided for a host of other positives for Dalton and the other partners. Each veterinarian received one day a week off, as they needed a minimum of two doctors there when the practice was open. The practice funded continuing education trips, where the doctors traveled to attractive locations to receive education and training. The profitability led to maximum funding on partner retirement accounts and annual bonuses. Last, the strong revenues allowed for promoting an employee, Daisy Spatz, to office manager in 2007. This removed Dalton's day-to-day management of office personnel and administrative responsibilities.

In addition to the financial benefits, the doctors developed a mutual trust where they were willing to help each other and enjoyed the flexibility of knowing others would help when they needed time for family or outside responsibilities. The practice operated smoothly, with all individuals understanding and being pleased

with their roles and relationships. More specifically, Oscar and Gretchen enjoyed practicing as veterinarians and knowing Dalton would manage most other aspects of the business while involving them in major decisions.

DALTON'S HOBBIES AND LIFESTYLE

Due to Dalton's social nature, he enjoyed spending time around others. He met friends for breakfast every morning before work. If time allowed, he also met friends for lunch. He and his wife would go out to dinner each night, often with other couples. The success of the business also allowed for greater time off, resulting in more travel opportunities for Dalton and Bella. Like the dinners, sometimes this travel was just the two of them, and at times it was with others. Dalton was always planning the "next trip", as he both loved being in Nashville and enjoyed looking forward to the next place they would visit. They discovered a few favorite places and were excited for the future where they could either rent homes in these areas for longer periods of time (like the winter) or perhaps buy a second home in an area. As both of Dalton's children were now grown and moved away from Nashville, he also visited them, especially as grandchildren started appearing. Each of his two children had a young son. He anticipated more grandchildren and desired to be close with his children and grandchildren. His children did not work in the veterinary field and didn't have any interest in being involved in Dalton's veterinary practice.

Dalton was a member of the board of a regional bank. Due to his positive longtime standing as a board member and reputation for being ethical and fair, Dalton was asked to serve as the chairman of the board. His networking skills, including the strong connections he made, helped the bank as Dalton often could find new bank clients. He enjoyed his role on the board as it was engaging, and aligned with his business acumen skills, yet did not require consistent investments of his time.

When not around others, Dalton and his wife spent a great deal of time on their 26-acre horse farm. Owning four horses, plus maintaining the land for the horses to graze and run, created a great deal of work. Bella cared for and rode the horses while Dalton managed the grounds. Unlike the role on the bank board, this did require consistent large investments of time from both of them. Over the past couple of years, Dalton started hiring individuals to help care for the grounds.

Dalton shared, "I like being busy. I do fear that if I slow down, I may not be able to get started again. I don't really have a hobby to spend a great deal of time in when I retire. To be honest, that scares me as I'm fearful that I'll be bored." He participated in many of the hobbies that his friends enjoyed, including boating, golf, and restoring cars. He enjoyed exercising, specifically cycling classes. But that only

took up a small portion of his day and, he admitted, can't be done every day as he needed at least a day to recuperate.

DISTRIBUTION OF OWNERSHIP AND REDUCTION OF HOURS

Over the past few years, Dalton made a concerted effort to distribute ownership to the partners. He strategically desired his shares to drop below the 50% controlling interest, as he knew that the other partners would work in the practice after him and needed to play a larger role in planning the future. See Exhibit Three for historical changes in ownership. At this time, Dalton held 41% of shares, with Oscar at 35% and Gretchen at 24%. Oscar was 60 years old and Gretchen was 48.

To facilitate more opportunities to travel and more time to spend with friends and family, Dalton and the partners agreed to reduce his work days each week to three (from the normal four) a year ago, in 2015. Shortly after this, the practice decided to begin Saturday morning hours for clients who were unable to visit during the week. These changes, in conjunction with the additional revenue from Saturday hours, led to a fourth veterinarian, Dr. Louise Clifford, being hired into the practice. Louise, 32, did not have any ownership interest in the practice, but was highly interested in a permanent and long-time role in the practice.

Dalton was pleased with the current work arrangement and personnel set-up. However, he felt that there was not an opportunity for a larger role reduction (i.e. working two or one day a week) as a veterinarian. He suspected the next change is a major one. At the same time, he explored options, Dalton received offers to buy the practice. The timelines associated with the external offers made this decision imminent.

RETIREMENT AND FINANCIAL IMPLICATIONS

Dalton planned for retirement for many years by investing money into retirement accounts, paying off his home mortgage, and paying off mortgages on commercial properties. Dalton and his wife owned the building where the practice operates, as well as the other building on the property (the former veterinary practice) which now housed two small businesses. The rent from these two buildings provided Dalton and Bella adequate income to afford their lifestyle and allow for travel. Distributions from retirement accounts, which are required beginning at 70 ½ years of age, would also help support travel and any other hobbies.

OPTIONS

Dalton had considered several options regarding his future role in the practice and the on-going operations of the practice. The four options below represent those other partners were comfortable pursuing, when he was ready to take the step.

Option 1: Complete Sale

All partners sold their interests (100% ownership of practice) to a venture capital firm specializing in veterinary practices. Dalton must remain with the organization for two years as a veterinarian and to transition management of facility and all operations. In this option, Dalton, Oscar, and Gretchen would all receive a one-time lump sum payment based on their ownership interest. The practice received three cash offers from management organizations, with the largest offer coming in at \$2.7M. Dalton and his partners had thirty days to reply to this offer.

The organization did not carry any debt (as previously noted), so the entire proceeds would be distributed amongst the partners. Dalton owned and would not sell the land and building where the practice was located. The organization offering to buy the practice agreed to keep the current lease terms of the property for, at least, a 10-year lease with annual inflation adjustments. Oscar, Gretchen, and Louise would work five days a week and receive acceptable annual compensation with an opportunity for bonuses. Dalton could continue working three days a week, but may need to be available on other days for meetings with the new owners. All financial, strategic, and operational decisions would be made by the new venture capital owners.

Option 2: Retain Ownership Interest, Stop Practicing

Dalton would retain his current ownership interest, but would stop serving as a veterinarian. Louise, the new veterinarian, provided for a three-veterinarian structure where all hours remain the same. Dalton would continue to manage the facility, staff, and operations. He would receive a salary for the management role, which is much lower than his veterinarian compensation, and would receive a percentage of profits based on ownership percentage. He would continue being involved in decisions that impact the organization. He would not be required to keep consistent hours, but would have an office at the facility.

Option 3: Sell Shares to Oscar & Gretchen, except retain 10%

In this option, Dalton sold 31 of his 41 shares to Oscar and Gretchen. This would result in each of them owning 45 shares and Dalton retaining 10. The payment for shares would occur over 10 years with an annual payment at the same time bonuses are paid on profits. This would provide for Oscar and Gretchen to use their bonuses toward the annual payment to Dalton. If the bonuses were not enough, they would need to figure out how to pay the difference. In this option, Dalton would be paid \$22,000 per share over the 10-year period (or \$2,200 per year per share).

Similar to option two, Dalton would stop practicing as a veterinarian. However, here he would not be involved in the management of the operations or facility.

Oscar, Gretchen, and Louise would need to share these responsibilities. However, similar to a board member, Dalton would be brought in for high-level decisions or to make the deciding vote if Oscar and Gretchen ever found themselves in a situation where they disagreed. Dalton would not receive any salary, but would receive 10% of profits each year based on his ownership.

Option 4: Sell all 41 Shares to Oscar and Gretchen

The payment for shares would occur in 10 installments and Dalton would receive \$22,000 per share (or \$2,200 per year per share). Oscar and Gretchen would make payments from profits and would need to find additional funds if profits were insufficient to make annual payments. In this idea, Dalton stopped practicing as a veterinarian and was not involved in the management of the operations or facility. As all his shares were sold, he would have no decision-making authority. He would not receive any on-going compensation, other than the installment payments for his ownership interest. Dalton, effectively, removes all responsibilities associated with the practice.

THE DECISION

Dalton reviewed and received approval on all options from his partners. He only had two weeks before the offer expired to respond to the outside organization offering to purchase the practice. He appreciated the flexibility of his partners and knew he had to make a decision that he felt benefitted as many people as possible, including himself. He spoke to his wife and she was supportive of all options. This meant the decision was up to him and needed to be made in the next two weeks.

**EXHIBIT 2:
Organizational Structure**

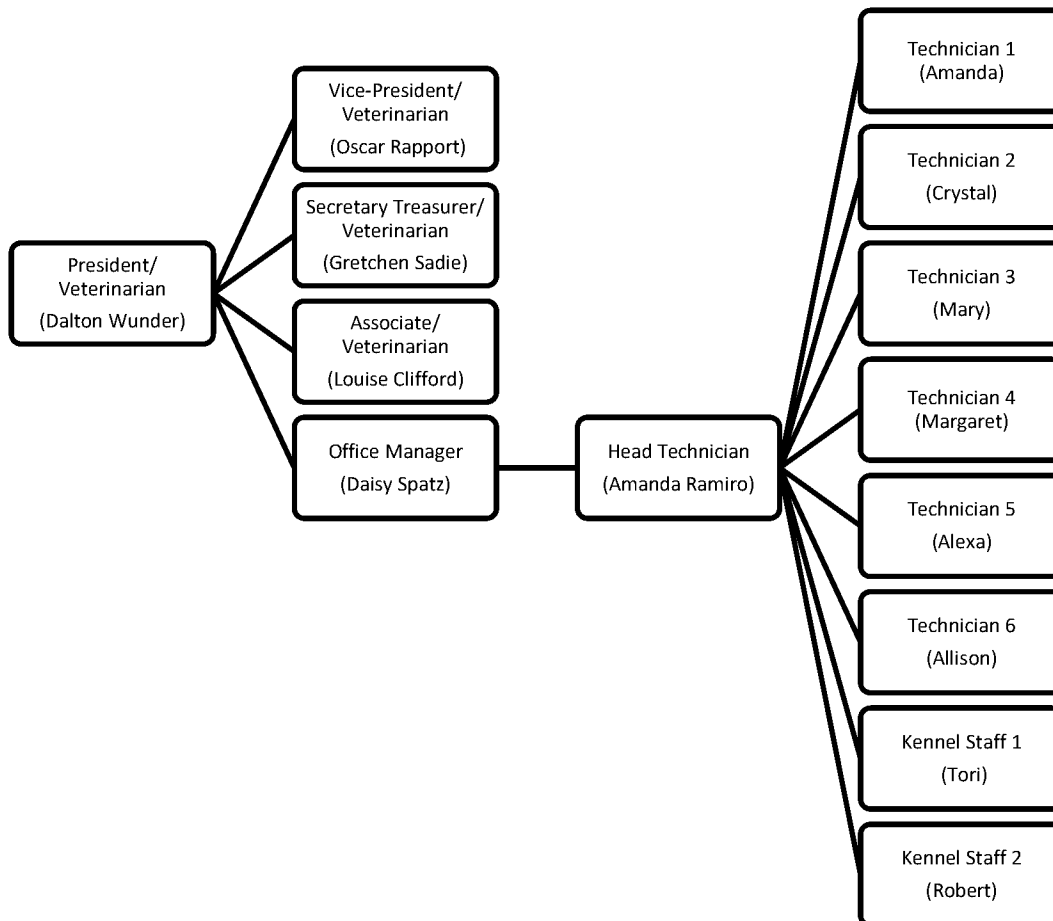


Exhibit 3:
Shares Distribution – Founding to 2016

Year	President/ Veterinarian (Dalton Wunder)	Vice-President/ Veterinarian (Oscar Rapport)	Secretary Treasurer/ Veterinarian (Gretchen Sadie)
1978	100	--	--
1996	90	10	--
2001	80	10	10
2006	70	20	10
2013	41	35	24
2016	41	35	24

Note: Entire shares are 100.