

Joint response to the Competition and Markets Authority approach to profitability and financial analysis working paper

1. The British Veterinary Association (BVA) is the national representative body for the veterinary profession in the United Kingdom. With almost 20,000 members, our mission is to represent, support and champion the whole UK veterinary profession. We are a professional body and our members are individual veterinary surgeons. We take a keen interest in all issues affecting the profession, including animal health and welfare, public health, regulatory issues, and employment matters.
2. We welcome the opportunity to respond to the CMA's proposed approach to profitability and financial analysis on a proposed market investigation reference. Our submission has been compiled jointly with four of our specialist divisions and affiliate organisations, for which the review has the most relevance:
 - The British Small Animal Veterinary Association (BSAVA) which has a membership of 11,000 individuals mainly comprised of veterinary surgeons working in small animal practices treating household pets but also includes registered veterinary nurses (RVNs) and student veterinary surgeons and nurses. Its mission is to enable the community of small animal veterinary professionals to develop their knowledge and skills through leading-edge education, scientific research, and collaboration. It works closely with BVA to represent and support the profession in specific areas of relevance to small animal practitioners.
 - The Society of Practising Veterinary Surgeons (SPVS) whose mission is to provide a supportive membership community offering representation and industry-leading guidance for leaders in veterinary practice.
 - The Veterinary Management Group (VMG), who are the UK's leading representative body for veterinary professionals working in leadership and management roles.
 - The British Veterinary Nursing Association (BVNA) is the independent membership organisation providing services to and representing the veterinary nursing community with 6,500 members. We have a strategic alliance, and their mission is to empower veterinary nurses to develop as individuals and increase their impact on the profession and animal welfare.
3. In previous submissions to the CMA, we have been clear that we are keen to see a well-functioning market comprised of healthy competition and consumer choice. We have also expressed disappointment at the CMA's suggestion that veterinary professionals might prey on owners' desire to do the best for their pets by using these circumstances as a "strategy" to promote more sophisticated or expensive treatment. Vets and Registered Veterinary Nurses (RVNs) enter this high-pressure profession out of genuine care for animals and will always prioritise their health and welfare.
4. We have also previously set out the challenging landscape the veterinary profession is operating in, including: ongoing workforce shortages, exacerbated by Brexit; the growth in demand for services due to the pandemic pet boom; changes in client expectations in line with medical advances; and increasing abuse from clients, particularly as a result of the cost-of-living crisis. As a result of all these pressures, we are seeing vets and vet nurses leaving clinical practice, which in turn is exacerbating workforce challenges.

5. All these challenges, as detailed in previous submissions, are contributing factors in the functioning of the market. It is essential these are considered in full as part of the overall assessment, and alongside profitability analysis, such that the impact of supply and demand on the profession and clients informs any proposed remedies.

Section 3 of CMA working paper: Scope of analysis

6. We note the intention to include pet cremation services. These services are almost always external to veterinary practices but provided by the practices to support clients at an incredibly difficult time. Although we welcome and encourage transparency, we have previously expressed concern that complexity of choice or anything that makes providing this service more challenging for practices could inadvertently lead to a much more difficult and distressing situation for pet owners where they could be left to organise such provision themselves.
7. We note that, in addition to the large corporate groups, there is an intention to select a “representative sample of the remaining 40% of independent FOPs, supplemented by four larger independent vet businesses with ten or more practices (mid-tier)”. The working paper later explains that the sample will be “random”. It is unclear how the sample will be both representative and random, and whether a range of business models will be considered. With approximately 6500 practices in the UK, of which 2,600 are independent, we would question if a sample of 70 practices can be truly representative. There may also be some recruitment bias in that veterinary practices with the most human resource available will be more willing and able to provide the data requested. We do, however, welcome the intention to stratify the sample according to geographical location.

Time period under consideration

8. We support the stated aim to examine profitability over a time period that is sufficiently long to provide a representative picture of profitability and that is not unduly distorted by unusual macroeconomic conditions or one-off events. We note that the proposed ‘Relevant Period’ is five years, two years more than the originally proposed three-year period in light of discussions with large corporate groups on data availability.
9. We consider that when valuing a business and assessing profitability it is reasonable, and more likely to present accurate results, to use a smaller reference range from years which are representative of the future, rather than a longer period which spans wide uncertainty and significant flux in the market. It is likely that including the period of Brexit and the COVID-19 pandemic in the Relevant Period could skew the findings depending on how they are used as part of financial analysis, making for a less accurate assessment of the market. Indeed, the working paper identifies that:
 - a) *Restrictions introduced in March 2020 limited the work of veterinary surgeons to maintaining the food supply chain and carrying out urgent and emergency veterinary work only in practices, leading to reduced revenues*
 - b) *A significant increase in pet ownership during the COVID-19 pandemic has fuelled greater demand for veterinary care and a subsequent ‘rebound’ in revenues*
 - c) *The industry is highly dependent on EU veterinary surgeons [and nurses]¹ and there has been a tightening of immigration policies since Brexit.*
10. The working paper sets out the CMA’s commitment to interpreting the results of the analysis in the context of these recent market events, and to gather forecast data to supplement the analysis of

¹ As far as we are aware, the industry does not rely on veterinary nurses from the EU. There are currently very few recognised nursing qualifications from the EU.

historic financial performance to avoid distortion. However, we remain concerned that by selecting a Relevant Period which, by the CMA's own admission, is significantly impacted by exceptional events, the assessment is unlikely to be sufficiently accurate to reasonably inform whether profits are excessive. Unless the purpose of the findings from distinct periods is primarily intended for use validating financial differences between these periods, it is unclear from the working paper how the CMA intends to model the effects of the stated 'rebound' to avoid market overshoot once these impacts resolve over time. Although there was a pandemic pet boom associated with the Covid-19 lockdowns², we have since seen increased relinquishment of pets. UK Pet Food's annual pet survey revealed that 3.7m households admitted to having relinquished a pet in 2022.³ The PDSA's 2024 PAW report shows that many rehoming organisations have reported an increased rate of relinquishment over the last 12 months.⁴

11. We challenge the assertion in the working paper that "the supply of veterinary services for household pets is generally considered resilient to economic downturns and unlikely to be materially affected by unusual macroeconomic conditions, with consumers continuing to spend on the welfare of their pets during periods of economic decline". As previously outlined in our October 2023 submission in response to the CMA call for information, as a result of the cost-of-living crisis, some pet owners have become less able to afford the costs associated with their animals including vet bills. Pet owners may also take the short-term decision to cancel pet insurance cover, which can mean they delay seeking advice or treatment from their vet, including preventative health care. This may lead to poorer health and welfare outcomes and potentially increased costs longer term for conditions that could have been less expensive if treated earlier. We have also seen more animal owners turning to the safety net of the charity sector that provides veterinary services to those facing financial hardship, as well as an increase in relinquishment. We are extremely concerned that the CMA is failing to recognise the extent of the impact on veterinary practice of the cost-of-living crisis, including the recent redundancies across Linnaeus, IVC and VetPartners which are related to decreased transaction volumes.

Section 4 of CMA working paper: Proposed approach to profitability analysis

Overarching conceptual approach

12. We have significant concerns that the detail of the CMA's likely approach to financial and profitability analysis as set out in the working paper is unlikely to be familiar to the majority of vets and RVNs, making it extremely challenging for individuals to contribute meaningfully to this consultation process. Whilst we understand that the language / terminology is necessarily tailored to the subject matter, the content is largely pitched at a level of expertise and understanding of finance, accounting, and economics which is beyond the training and expertise of most vets and RVNs in practice – those who will be most affected by any conclusions and resulting remedies. We trust that the CMA is liaising with the veterinary accountancy firms for detailed feedback on methodology.

Return on capital employed

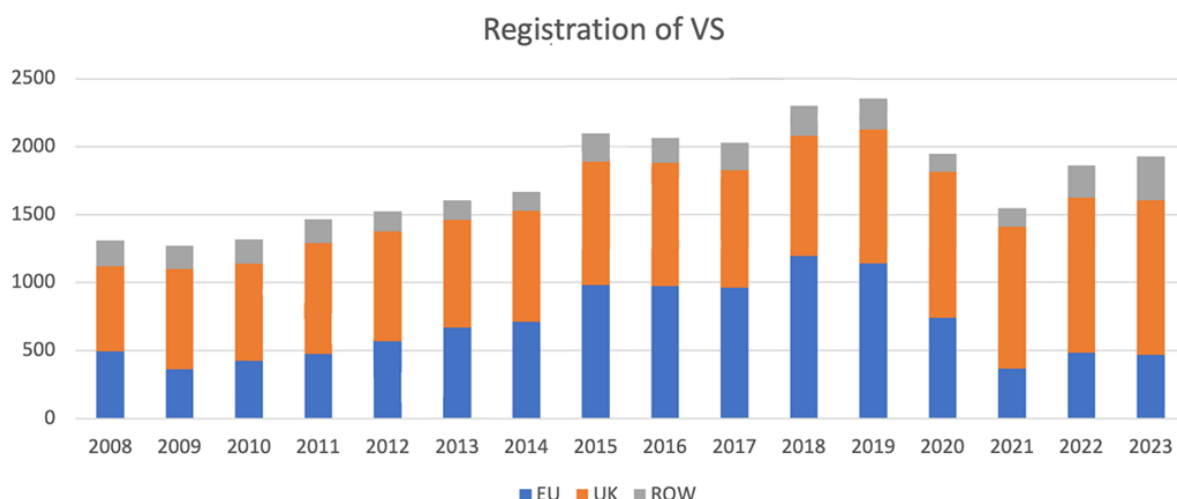
13. We note the rationale for benchmarking return on capital with the opportunity cost of capital, and the assumption that excess return leads to entry and/or expansion. However, this requires a market where supply can meet demand. As you will be aware, veterinary practices in the UK have faced well-documented challenges with the recruitment and retention of vets and RVNs, the reasons for which have been multifactorial, including unreasonable working hours, relatively low salaries, and insufficient management of workplace stress. Prior to Brexit the UK veterinary workforce was highly reliant on vets from the EU as the supply of 'home-grown' vets from UK vet schools was simply not

² <https://www.mdpi.com/2076-2615/11/9/2500>

³ <https://www.ukpetfood.org/resource/uk-pet-food-s-annual-pet-survey-shows-cost-of-living-impact-on-pet-owners.html>

⁴ <https://www.pdsa.org.uk/what-we-do/pdsa-animal-wellbeing-report/paw-report-2024/pet-acquisition>

keeping up with demand. At the time of the 2016 referendum on Brexit, the proportion of new registrants from non-UK EU vet schools was 47% (RCVS, 2016). In early 2022 BVA highlighted serious concerns after the workforce saw a drop of more than two-thirds in new EU registrants coming to work in the UK in two years. Data released by RCVS (see chart below) revealed that the annual number of registrants coming to work in the UK fell by 68 per cent from 1132 in 2019 to just 364 in 2021.⁵ Although there has been some bounce-back since, 2022 was the first annual increase to have been recorded post-Brexit.⁶



14. If there was an unlimited supply of vets and RVNs, practices could seek to expand supply, delivering higher volume at lower prices, and the number of start-ups could expand further. However, this is not currently the case and to reach any conclusions about the competitive process based on the absence of entry and/or expansion fails to recognise the limiting factor of the supply of veterinary professionals, which is especially limited in some geographical and sector specific areas.
15. The consolidation of veterinary practices has occurred over the last 10 years, which means there has not been sufficient time for normal market dynamics to return. This is particularly true given the shortage of labour in the market which will inevitably directly impact both competition and pricing of professional services. There has also been a shortage of unsecured finance at a level and cost that would allow new entrants to the market (new veterinary practices). If the market is currently distorted, then we would argue that external constraints on labour and capital are significant factors.

Scope of relevant operating revenues, costs, assets and liabilities

16. We note that it is the CMA's usual practice to measure profitability on an operating basis, thereby excluding the impact of interest and tax. This means that profitability can be assessed independently of the choice of capital structure of individual firms.
17. The large corporate groups are driven by private equity funding, and in the early stages after acquisition are focused on growth of earnings before interest, taxes, depreciation, and amortization (EBITDA). Independent practices depend on borrowing at full market rates to fund shares in the business purchased, with profit targets typically determined by the need to cover costs. Many independent practices do not necessarily break down or adjust profits for notional salaries and rents and this can create a situation where they have a negative or low EBITDA. In some instances,

⁵ <https://www.bva.co.uk/news-and-blog/news-article/uk-s-veterinary-workforce-crisis-deepens-as-eu-registrant-numbers-drop-by-over-two-thirds-since-brexit/>

⁶ <https://www.vettimes.co.uk/news/rcvs-report-reveals-big-jump-in-eu-vet-registration-figures/>

independent practices might only give consideration to EBITDA if preparing a practice for potential sale to a corporate. It may be relevant for this to be given consideration when CMA is selecting practices as part of their financial analysis exercise to ensure business models reflect diversity across the sector.

18. Profitability per se is not necessarily a primary driver for many veterinary businesses and the level of financial tracking is often limited to turnover and money in the bank. Interest payable on loans is a real challenge for independent vets as new partners typically buy in with unsecured borrowing at higher rates or seek to borrow from existing partners on the same basis. This must be factored as ignoring interest for the purposes of simplicity may severely overestimate the returns for some independent practices.

Approach to asset valuation

19. The valuation of assets is an extremely complex area. It is essential that assets, both tangible and intangible (including goodwill) are accurately assessed in order for any profitability assessment to be of value. We recognise the importance of ensuring that only intangible assets that meet the criteria for recognition are included in the estimate of capital employed and of avoiding the risk of capitalising any 'excess profits' that the business is able to generate, which may be reflected as purchased goodwill. However, it is unclear from the working paper exactly how the CMA intends to calculate goodwill. Typically, the Gross Enterprise Method based on EBITDA is utilised. The multiplier applied is dependent on the potential profits, and is typically 4-7 for small animal practices, but has been as high as 10-14 during the consolidation period. It is essential this forms part of understanding profitability as practices are purchased on the basis of future goodwill. Typically, goodwill will constitute at least half of the asset value of a business, and this has to be acknowledged in order to avoid an overstatement of profits by ignoring this cost.
20. We note from the working paper that asset valuation, presumably including goodwill, will only be included as part of the approach to profitability analysis for the large corporate groups, which means that the CMA will be unable to calculate a robust Return on Capital Employment (ROCE) for independent practices. We consider that accurate asset valuation must be included for independent practices sampled as well as the large corporate groups. Failure to do so would in effect bias the analysis.
21. With regard to tangible assets, although we are aware of individual vets purchasing and selling second-hand veterinary services equipment over a number of years, we are not aware of any structured market for second-hand veterinary services equipment. As far as we are aware some practices might purchase second-hand NHS services equipment, which supports financial efficiencies - in effect, not all practices can afford the latest, state-of-the art, technology. In addition, given the pace at which technology is moving, equipment can often become obsolete within a matter of a few years.

In scope activities

22. We note the intention to assess the profitability of the veterinary services operations of each large corporate group without seeking to exclude revenues and costs from farm/equine services or assess separately the economic profitability of the different types of veterinary services. We understand this is because several of the large corporate groups have indicated that balance sheets could not easily be split to show small animal only, and it would be disproportionately time-consuming to do so. For this reason, we note the intention to assess the profitability of the veterinary services operations of each smaller vet business as a whole, without seeking to assess separately the profitability of the different types of veterinary services, again leading to bias in the analysis.
23. To date the CMA investigation has been explicitly focused on the provision of veterinary services for UK household pets. In our response to the proposed Market Investigation Reference we agreed that

the scope should be limited as such and urged careful consideration of the potential impacts on other types of veterinary practice, for example 'mixed' practices in remote areas where there is already limited veterinary care, before any remedies are implemented. Further, in response to the CMA Issues Statement we stated that care must be taken that any remedies do not disproportionately negatively impact on small practices and start-ups – which are important for client choice, or those practices in remote and rural areas, including mixed practices – which are important for animal welfare and already under challenge in terms of viability.

24. With the above in mind, we are concerned that the investigation is moving towards consideration of the wider veterinary market, incorporating farm and equine practice, without sufficient information or understanding of the way in which these services operate. As it is increasingly inevitable that any remedies will impact as significantly on all types of veterinary practices (mixed, farm, equine, exotic/zoo etc.) as on veterinary services specifically for household pets. It is critical that the CMA engages with such practices and professional Associations from these parts of the veterinary sector in order to avoid any unintended consequences for the sustainability of these businesses, provision of services to clients and for animal welfare.
25. In conclusion, we consider there is a very significant risk that the approach as set out will create distorted outputs which have the potential to lead to suggested remedies with significant unintended consequences for the sustainability of veterinary practices, consumer choice, and animal welfare.

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