

BLUE RIVER PETCARE FINDS
SUCCESS IN THE ACQUISITION
OF VETERINARY CLINICS

PET



PROJECT

BY DAVID SEARLS

The leaders of Blue River PetCare have mastered law, finance and the business of human health care. But the veterinary medicine they leave to the experts who run their clinics.

CEO Dan Blumenthal, COO Roy Jain and CFO Ferdie Schmitz have built a veterinarian-friendly animal hospital network in the Midwest and beyond by sticking to what they know while maintaining a hands-off philosophy and allowing those with veterinary experience to run the day-to-day operations.



Blumenthal and Jain repeatedly use the phrases “hands off” and “user friendly” to describe their approach to the operation of the pet clinics in their growing network.

“We make sure we preserve what our vets have worked so hard to establish,” Jain says.

For instance, when the Blue River team acquires a clinic, it sometimes upgrades existing clinic signage, but the new signage doesn’t include the Blue River name. Instead, Blue River carries on the previous owner’s legacy.

“The brand equity in the community is what we are buying,” Blumenthal says.

So although the names of the clinics differ — for example, Antioch Animal Hospital in Antioch, Illinois, Heights Veterinary Clinic in Houston and Noah’s Ark Animal Clinic in Kansas City — all have the same support and network of resources as part of Blue River.

Beyond preserving the local brand of its acquisitions, the corporate parent adds value to its growing network whenever it finds a mutually agreeable opportunity. For instance, if the leadership team sees a new diagnostic tool, it might suggest the purchase to a clinic, says Blumenthal.

“But we’re not going to make them get the equipment if it’s just going to collect dust,” he says.

That hands-off attitude suits Dr. Stan Carter, who sold his St. Louis area Carter Pet Hospital to Blue River, just fine.

“We all feel like we still own the business,” he says.

The approach of making aggressive acquisitions and granting local autonomy is paying off for the leadership team as well.

“We’ve got 21 hospitals currently, and we’re about to close on numbers 22, 23 and 24,” says Blumenthal.

With more than 400 hospital employees and more than 50 veterinarians, the group anticipates continued growth.

Many people are as committed to their pets as they are to their human family members, and they demand the same medical attentiveness and health care technology

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breakthroughs for their animals. This creates growth potential for the hospitals.

“If people are using a type of treatment for themselves, they’re going to want it for their pets as well,” says Blumenthal.

Blue River CFO Schmitz has been there. When his family’s dog, a Pekapoo named Cello, was 15 years old, he needed — and got — cataract surgery.

Some of the ancillary treatments that pet owners want and expect include holistic medicine, veterinary acupuncture, laser therapy for arthritic dogs and other specialties, such as alternative medicine, especially in Colorado and California and other areas where there’s an elevated interest in alternative medicine for humans, says Blumenthal.

Preventive dental care is another growing area of services, as animal medicine has caught up with the finding that — as with human patients — there’s a connection between bad oral hygiene and coronary heart disease. In addition, more dogs are sleeping in bed with their owners, and owners don’t want to sleep with a dog with bad breath.

FINDING A NICHE

There are a number of benefits to being in what Blumenthal refers to as the “niche market” of animal hospitals.

“There aren’t a lot of people investing

in the space,” he says. “It’s a high-margin business without significant malpractice exposure and no heavy penetration by insurance companies.”

That last point means there are fewer paperwork hassles and little time spent waiting for checks from the third-party payers that pay for human health care. Furthermore, the business is recession resilient, meaning that pet owners, who are generally emotionally attached to their animals, spend for needed vet care even in bad economic times.

Blumenthal first became aware of the industry as an acquisition target in 1997. With his Harvard Law School degree and corporate tax lawyer background, he was a founding partner at Willis Stein & Partners, a Chicago private equity firm. That’s where he met future business partner Jain, and his team started crunching numbers and fueling the growth of National Veterinary Associates (NVA). With the investment of Willis Stein, NVA became the nation’s largest privately owned network of veterinary hospitals.

In 2007, Blumenthal and Jain left Willis Stein to launch Blue River PetCare. Schmitz, a CPA and former CFO for a human health care company, joined soon after. Together, they chose a corporate name that

is a merger of Blumenthal's nickname (Blu) and the fact that they started their business on the banks of the Chicago River.

Despite their backgrounds and the reassurance of their preliminary research, it was a leap for the Blue River team to start the business in the heart of the Great Recession. While clinic owners were more motivated to sell at that time, the team was unsure what impact the economic climate would have on their venture. As a result, they began with a concentration on areas of the country that were doing less poorly, says Blumenthal. The first deals were made in the Midwest, the mid-Atlantic region and Texas.

"But as the economy is rebounding, we're constantly looking at new geographies," Blumenthal says.

That currently includes California, Arizona and Florida, among other regions. Blue River is seeking out partners who still want to operate the businesses they started, as well as older veterinarians eager to retire.

"Our typical selling veterinarian is an entrepreneur who's built the business and is looking for liquidity," says Blumenthal. "They are proud of their practice and are only going to make the deal if the situation is right."

That description fits Carter, the St. Louis veterinarian who is still running his business after selling. He established Carter Pet Hospital in 2007 and sold it to Blue River four years later. It wasn't the first time he'd completed such a transaction.

"I had sold a previous practice to another company in 1998," he says. "They changed our signage and took our identity. It was not a good situation. Not a good fit. With Blue River, it's been a wonderful experience. Totally different."

The difference was that the new management put its hands-off strategy in play and left the hospital's day-to-day operation to the medical professionals who know the practice and the community.

"They let us keep our own company name and signage and asked us if we needed assistance," he says. "Our employees are happy, and we've had zero doctor turnover





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– BLUE RIVER
PETCARE PHILOSOPHY



since the sale.”

In addition, Blue River provided the practice with digital X-ray capabilities and took over the monotonous paperwork involved with payroll, 401(k) management, insurance and other HR matters, says Carter.

Schmitz says the emphasis on the freedom of individual practices within the network differentiates Blue River from his previous career experience.

“The health services company I worked at operated and functioned like a large company,” he says. “Here, we want to keep small businesses small.”

The emphasis on local control is visible on the company’s website, where the main message is a solicitation of independent animal hospital management to consider selling to Blue River. The company makes

its case through its hands-off operational philosophy: “We believe strongly in the local franchise and work with our hospitals to strengthen their existing hospital brands and carry on the legacies which have been established.”

FAST-TRACK PARTNERS

In addition to nurturing ties to sellers/ veterinarians, Blue River PetCare needed to establish a mutually beneficial working relationship with a lender with very specific characteristics. That search led the company to FirstMerit Bank in September 2013, and since then, the partnership has blossomed.

“We’re doubling in size, from 10 clinics to 20 in 2014, so we needed a lender who would understand us and our unique needs,” says Blumenthal. “What we’re doing is not plain vanilla financing. We’re regularly

drawing capital, and FirstMerit always tries to accommodate our corporate objectives.”

Since the partnership began, FirstMerit has financed 11 deals. Closing those deals can be a balancing act, because it is crucial that the process with the sellers not be in any way adversarial, says Blumenthal.

It’s not a matter of a buyer and a seller sitting across a table as each party hopes to win by securing the best terms. In the Blue River business model, sellers will continue to run the practice, so the corporate management team wants and needs the sellers to remain on the team. In addition, Blue River doesn’t typically buy the buildings, so sellers become the landlords in addition to continuing their roles as key local management and providers of veterinary medicine.

And that starts with negotiations that are agreeable to both parties, says Blumenthal.

“Our FirstMerit bankers are appreciative of the fact that we have multiple levels of relationships with sellers, and they respect those relationships,” says Jain.

FAST FACTS: BLUE RIVER PETCARE

- **Headquarters:** Chicago
- **Founded by:** Dan Blumenthal, CEO, Roy Jain, COO, and Ferdie Schmitz, CFO
- **Business:** Operates high-quality veterinary hospitals in Arizona, California, Colorado, Illinois, Maryland, Minnesota, Missouri, Ohio, Texas and Wisconsin.
- **Primary targets:** Established veterinary practices that employ two or more veterinarians with an established business and a loyal following.
- **What makes it different:** Blue River takes a hands-off approach, with veterinarians continuing in the practice while receiving back-office support for human resources, marketing and capital investments. Best practices are shared across all hospitals to maximize potential success.



Blumenthal says the bankers at FirstMerit have been easy to work with as well.

“When the phone rings and you see that it’s your banker, that’s not always a call you’re excited to take,” he says. “But with FirstMerit, it’s always a pleasant experience.” ♦

How to reach: Blue River PetCare,
www.blueriverpetcare.com or (312) 436-1170