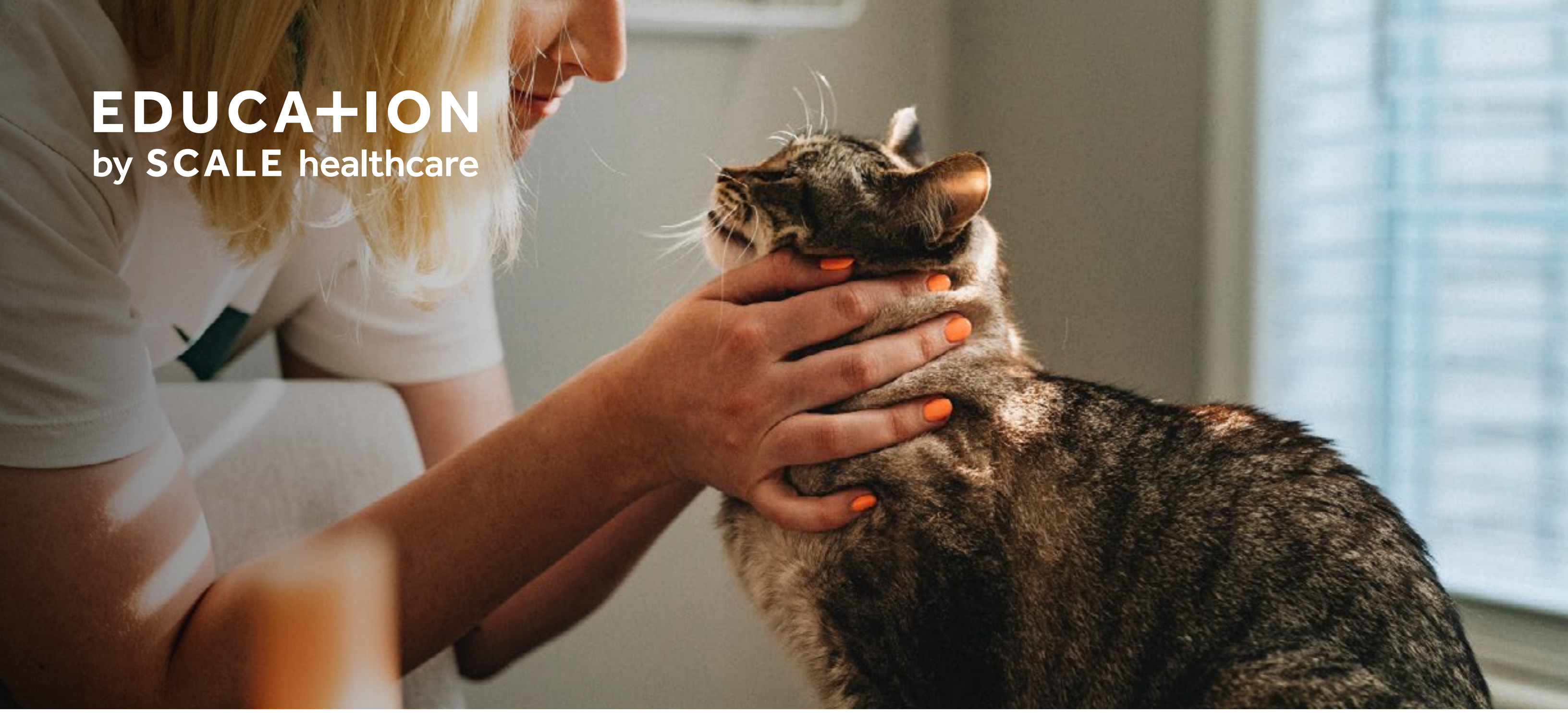

CEO Leadership Series: Vol 22

Understanding Market Dynamics and Strategy in Veterinary Care

March 7, 2023

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Key Takeaways

M&A Activity Has Cooled Since the Peaks of 2021 and H1'2022.

M&A volume peaked in 2021 into early 2022, followed by a rapid drop off in M&A activity during the second half of 2022. Approximate number of acquired clinics nationally by year:

- 2020: 1,000
- 2021: 1,500
- H1'2022: Annualized run-rate of 2,000
- 2022 full-year: 1,000

De novo site development becoming an increasingly important replacement driver of growth.

Overpriced assets, challenging provider supply dynamics, waning service demand and concerns around the sustainability of on-going service price increases caused buyers to rethink their appetite for paying hefty multiples that often ranged from 12-15x for single owner operator clinic and pushed up to 20-30x for a more developed platform.

In turn, companies have turned to de novos as an alternative model for sustaining growth. Albeit off of a small nominal number, the number of de novos grew by ~3x in 2022.

- Approximate number of de novos nationally by year:
  - 2020: 45
  - 2021: 50
  - 2022: 150

Provider Supply Challenges

- Pets per veterinarian ratios have doubled since 2000.
  - Approximately 3,000 vet associates graduate from vet school each year
  - There are only 36 accredited vet schools in the country.

- Expectations in response to provider supply challenges
  - Vet provider compensation to increase over the mid- to longer-term to attract additional veterinarians.
  - Adoption of mid-levels.
  - Service demand to be watched closely as a potential partial offset to provider supply shortage. Demand dropped in 2022 relative to a high watermark in 2021.

Historically Low Bar In Operations is Beginning to Rise

- Historically limited focus on integration yielded many rapidly scaled platforms plagued by cumbersome underlying infrastructure across multiple operational programs, brands, systems and cultures.

The vet market overall has further work ahead to develop uniformly adopted standards.

- Relatively simple back-office infrastructure required for operations relative to human health driven by less regulation and primarily up-front cash pay with limited claims-based revenue cycle.
- The vet market is continuing to determine standards of care and oversight – in the meantime, higher levels of variance across the market relative to human health. Examples include:
  - Coding and charge types vary significantly across platforms.
  - No recognized set of metrics pushed by an overarching government entity such as CMS.
  - Mid-levels utilization yet to be adopted / formalized.

Smaller Domestic TAM Relative to Human Health. Larger Players May Consider International Expansion to Pursue Further Growth

- Large universe of unsophisticated players has created a strong buyer consolidation market over the past 5-10 years.
- That being said, limited universe of companies of reasonable sophistication and scale creates a competitive market dynamic at the higher end of the chain. Vet services is closer to a $30-40 billion market domestically relative to human health physician services of roughly $3+ trillion.
- Given relatively less complexity in vet care delivery, expect more international expansion to fuel further growth.
  - IVC Evidensia is a Silver Lake backed European platform that recently moved into Canada and may pursue opportunities in the U.S.
  - Facing FTC pushback, larger U.S. players such as Mars have made inroads in international markets including Europe and the U.K.
  - Canada has a favorable DVM to population ratio and could be a logical expansion market for U.S. players.

Pet Insurance Continues to Underwhelm as A Value-Add Product

- Pet insurance is categorized under property insurance, which faces less regulation and product consistency. Highly varied and customizable pet insurance products contribute to confusion across consumers.
- Pet insurance market is relatively small – i.e., approximately $2 billion in annual premiums – which means insurers have to price policies for profit versus benefiting from additional financial opportunity by investing the float. This further weakens the product's value proposition to consumers.
- Ultimately, the pet insurance penetration rate is relatively low, between 2% and 5%. The space is ripe for potential change / innovation.

Select Aspirational Peers in the Vet Market

Veterinary Emergency Group
- ~40x growth in sites over the past four years.
- Specialize in emergency vet care.
- Specialize in de novo site development.

Southern Veterinary Partners
- Regionally focused and, therefore, able to benefit from strong recurring feeder relationships with veterinary schools in those markets.
- Strong operations program.
- Strong acquisition integration program.
- Take pride in marketing contained price increases.
- Unique Associate Physician development & retention program that encourages these rising providers to buy / develop new clinics within the Southern Veterinary Partners platform vs. feeling the need to leave the company to achieve growth

Background

I started in investment banking and then private equity. I worked at Evercore Partners, where I was an analyst and associate. I then moved to Onex Partners, which is a Toronto-based large scale LBO private equity fund, where I focused mostly on healthcare services. We looked at a lot of the healthcare platforms that were up for sale, things like Concentra, DSI Renal, a lot of ASC platforms, a lot of targets in the physicians practice space. I then moved to Fortress Investment Group, which is actually where Roy and I met. At Fortress, I helped to stand up a few businesses, one of which was an outpatient birthing center business called Baby + Co. Tough business, for a whole lot of reasons, but a very good experience actually putting on the operator hat a little bit. We also stood up an ASC and physician practice business. We bought an ASC in Charlottesville, Virginia, and again, I got some real operator experience there.

I then was introduced to the founders of the business that I'm at today, which is called Veterinary Emergency Group ("VEG"). I had never looked at the pet space, and when I dug into it a little bit, I really fell in love with the industry. Everything that's tough about healthcare - the regulatory landscape, the payer dynamics - all of that just doesn't exist in the veterinary market. And so, the real downside is that the Total Addressable Market ("TAM") is just much smaller. If healthcare is $3.2 trillion or whatever it is today, vet services is probably something on the order of $30 billion, $40 billion, but is much less sophisticated, and just a totally different landscape. The more I dug into that space, I fell in love with the business that I ended up joining as CFO.

VEG is the first platform that's purely focused on emergency services in the pet space. We're probably most analogous to human urgent care, in the style of the format of the facilities and the fact that it's more retail-focused, more customer-focused than it is provider-focused. It's also similar to human urgent care in the site selection needs, and the fact that it's de novo only, rather than acquisition-driven. So, that's been the journey over the last 15 years. I've been with VEG now for four years, have seen it grow revenue by 40x, and sites from six, when I joined, to 40 today, with another 24 in development this year, 100% de novo. We would do acquisitions if they were unbelievably attractive, but the challenge, and the benefit of forging our own path here in the emergency space, is there's not a lot of pure play emergency only vet services businesses to acquire. And so, that forced our hand into de novo.

A lot of us have watched from the sidelines as the veterinary industry has really gone through transformation over the last 10, 15 years. What's fueling that?

I find the landscape to be fascinating. I have come into the middle of the first change, and then I think we're right starting the next phase. Over the last 10 years, private equity has completely saturated the industry with capital. There are 28K to 30K GPs. The taxonomy is there's General Practice, there's Emergency and Specialty Hospitals which are very analogous to a human hospital. There's an ED, which serves as an entryway into the hospital, but most of the money, and most of the business is really around the specialty part of the business, which is surgeons for things like ACL repair, oncology, ophthalmology. There's some analogy in pet care for everything in human care. And part of the reason for that is there's 68,000 small animal vets in the country. There's something on the order of 3,000 vet associates that graduate from vet school each year. There's only 36 accredited vet schools in the country. They just opened a new one, amazingly in Texas Tech, that's the first new one in God knows how long. There's just not a lot of supply of veterinarians, so there's not a lot of research that's done to move the science along. It's a pretty small space, historically sleepy; private equity only recently fell in love with the dynamics, for example there's no revenue cycle. I don't even have an AR team at VEG. I have three people in AP. The back-office infrastructure of these businesses is very simple. That enabled a massive level of consolidation, and especially at the beginning of that wave, it was all just bundling - very little in the way of integration on the back end of the infrastructure. You've got a whole bunch of different practice management software solutions that will be sitting inside of a given platform, and a lot of people had success just aggregating some level of scale, bundling it together, slapping a brand on top of it, and selling it, without changing anything. No change to the surface level brand of any kind. Then maybe over the last five years, that's continuing to happen in the background. But the industry's becoming increasingly consolidated. And you've got some of these folks who are gigantic; NVA, which is owned by JAP, which is a big German family office. They're in the process of going public, rumored to be $750 million of EBITDA, 1000, 1200 clinics, something like that across GP, and emergency, and specialty. Mars, the candy company, interestingly has a huge pet arm. I believe the pet arm does more revenue than the candy business does today, which is both legacy Mars, and then they bought Wrigley at some point, I think during the financial crisis. They own VCA, Blue Pearl, Vet Girl, whole bunch of brands, something on the order of 3000 clinics. They're the largest.

These guys have aggregated massive scale in this industry. They own maybe 10% of the whole space. You got a lot of people who were bundling, selling to them, maybe selling to these bigger platforms, and now you've got maybe five sizable +$100 million EBITDA businesses in this space.

We are now seeing folks focus more on integration, and operations than they were in the past, as well as on de novo. Because while this wave of consolidation was happening, prices for individual clinics went just crazy, candidly.

It's another reason why we decided to focus on de novo, just consistent, being able to have a consistent ROIC on your dollars. But some clinics are trading at 20x proforma EBITDA. A consistent number would be something in the 12 to 15x for a single owner operator clinic. The math gets hard, if you're a platform buying at 15x on average, they're putting equity into every single deal, and you're really hoping for a significant multiple, because the platforms for a while, and still continue to be in the low 20s, but for a while they're in the high 20s. Some were touching the 30s, corporate EBITDA multiples. We're now seeing the tail end of that. As interest rates rose, buyer appetite went down, pricing has come down, there's a dislocation between seller and buyer expectations. Deal volume slows down significantly.

If you look at the charts for the number of clinics acquired over the last three years, it's fascinating, because 2020 started slow due to COVID, then it ramped and went really fast, and almost 1000 clinics were acquired in 2020, which is 3% of the entire market. 2021, it looks like an exponential graph. It starts off pretty fast, and it just goes like this to the end of the year, of cumulative acquisition targets. You ended up with 1500 clinics being acquired in 2021, which is 5% of the total GP space. And it's really higher than that, because in reality the 28,000 GPs that are out there, I don't know what the number is, but some percentage of them are essentially un-acquirable, right? Like, individual person hang their shingle is not a business. You need at least two people. You probably want at least three so that the person you're buying out, of course, he or she may not be as engaged going forward. The real business opportunity is quite a bit smaller than the 20,000. I've said half, but I just made that number up. If you say that, then 10% of the entire industry was consolidated in a single year.

And then last year it started off even faster than '21. But then a brake was pulled on the whole market. Starting in June, basically the chart flat lines, it looks like a square root graph, whereas 2021 looks like an exponential. We ended the year with another thousand total acquired, but we were run rating by the middle of the year last year, like 2000. Everybody has been acquiring like crazy, multiples went nuts, people are getting frustrated as platform operators knew that the math doesn't really work here. You're really hoping to create a fool on the sale if you're having to put equity injection into every single acquisition. And they all started to get into de novo development. The challenge there is that it's just really a fundamentally different business. We've learned that over the last four years. I didn't have a lawyer on our team until we got a general counsel to actually help with general corporate matters last year. If we had focused on acquisitions, a lawyer would've been probably the next hire after me, and we don't have any of that muscle at all, and these teams have none of the talent development, talent recruiting, actual physical, retail, real estate experience and muscle.

And not to mention the actual incentivization structure inside of the de novo is pretty different than inside of an acquisition, and it is just a fundamentally different business. They're trying to spin these businesses up, as they see multiples going crazy, and you do see some level of success. These numbers are all from IDEX, there were about 50 de novo clinics in the whole country, which is crazy. 2021, there's actually fewer, there's 45, and in 2022 there's 150. Still a small number in the absolute sense but triple the historical recent numbers. And so it's clear that people really were trying to pursue de novos, and actually getting a few of the clinics stood up. I think we'll see that somewhat continue now. The industry in 2023 is going through a very significant paradigm shift. I think you'll see folks realize that the pure aggregation play is not going to lead to the success that it has in the past. If I'm looking for a huge exit, if I bought my platform at 22x, I'm thinking you're really lucky if you're getting multiple ARB on that of any kind. And especially if you're buying clinics at these elevated multiples, it starts to look like a pretty mediocre investment. You see a lot of folks shifting their focus towards operations and integration, and backend infrastructure. It's a real challenge in this space, because unlike in the human patient world where you've got consistent coding for the actual treatments and diagnoses, here, it's the Wild West. Even if I have the same practice management software, actual software suite in two hospitals that I acquire, what sits inside them is a different list of charges. Some of them are going to be reasonably easy to match up one to one, but a lot of them are not going to match up one to one. Aggregating the data is a challenge for these guys just to get the revenue number to throw out of their systems. Whereas for somebody like us, I can get revenue today minute by minute, and it simplifies your life a lot. It's a very hairy problem to do backend systems integrations across anything north of 10 disparate systems - at some level, you need to rip out and replace. But the customer data inside of those systems for the legacy activity is the whole business, at some level. They've got a real challenging data piece, and there's a lot of folks who are trying to solve this on the software side, of helping you port over your records from one system to another, and we don't live in the world of HIPAA, or Stark, or any regulatory landscape essentially at all, other than under the DEA, which is totally unrelated to the software stuff. It's doable in theory, but in practice, it's still really hard.

I think that 2023's narrative seems to be, take a breath, let's refocus on making sure you have some level of consistent operations inside the hospitals, some level of consistent SOPs, and that hopefully translates to clinic level margins that are reasonably consistent, and growing.

You've got slowing overall demand for the service for the first time in 25 years. We're seeing negative year-over-year comps across the industry, across states, and you're seeing essentially a zeroing out of new clinic acquisitions. It's a weird landscape for some of these folks who are really saying, "I'm going to go full, levered long, vet services, into just buying clinics and aggregating scale." The one last thing I'll say, while volumes are down consistently for everybody across the board, there's two components of that: one's the demand side, one's actually the supply side. You've had a lot of burnout from veterinarians over the last three years. NVA and Thrive both, at least this time last year, they both pulled the plug, but they were both looking to go public. Thrive's owned by TSG consumer, which is a San Francisco based private equity fund. They will tell you that they're down organically like 8%, but that's all supply side driven, and that is when I lose a veterinarian out of a clinic, I lost those number of appointments that I could actually see patients in. And so, it's not actually a demand problem, it's a supply problem. Unfortunately, it's both. You are also seeing a reduction of demand for services compared to 2022, which saw in some places a reduction in demand versus 2021, which is the high watermark. And so, that's not an ideal backdrop. Everybody has increased prices a lot. I saw somebody say one of the largest consolidators, I don't know who it is, increased prices seven and a half percent January 1st. That number doesn't surprise me in the slightest, but everybody seems to be down mid-single digits in volume, up mid-single digits in revenue, which, great, we can increase prices. God bless America, another beautiful thing about this industry, but it also is not a great thing to be relying upon. So, an interesting time for the vet space.

In the process of all that growth, and all that consolidation, and all that acquisition and all those de novos, how do you feel the quality of care has improved, if at all?

That's a really good question. As always, it's very challenging to measure. I think not a lot of innovation has happened on the clinical side of care in a very long time in this industry. You will see that diagnostics penetration rates are way up. Usually that is sort of used to say one of two things. One is revenue per visit is up, but also that clinical care is improving. I mean the other thing is again, this industry doesn't have a recognized set of metrics of anything related to CMS, or anything at all. So, everything you hear will be anecdotal, and it'll be case by case, honestly.

So it feels like this business, this market, this industry is stuck in that paradigm of fee for service.

Very much.

That all of us suffered from for years. Where the incentive is purely quantity driven, as opposed to outcome driven. Do you think that will come at some point, an outcome-based veterinary industry?

The payer dynamics here are what are unique. It's really a retail business. Pets are property for regulatory purposes. That's the big paradigm difference. The pet insurance that you hear about is a form of property insurance. Property insurance is pretty unregulated. There's a lot of things you can do to customize the fees relative to the coverage, and the level of coverage itself is highly customizable. Because of that, I think the consumer view is very muddied. What you're actually getting when you buy pet insurance is very inconsistent. The total underwriting pool, as I understand it, is about $2 billion a year in premiums. That's not big enough to build a business where you could then invest the float, and have it underwrite at a loss, and still make money in the business, putting on my insurance company hat. Because of that, it's underwritten at a profit, and anything that's underwritten at a profit is a weaker product for a customer. I think customers get that at some level. It's expensive care, essentially. And it certainly doesn't cover routine visits. It's really only for services like VEG in emergency care - we like it, because it covers what we do. But everybody else, it only covers if you really have some issue. The penetration rates are between 2% and 5%. I think it's higher for new pets, and if you get a French bulldog, you should get it. But if you adopt a shelter animal, you probably shouldn't get it. Because of that, you don't have anybody who's going to be forcing the hand of folks. And because there's so few veterinary schools, the academic side of this industry is quite weak, as well. So you don't have a ton of research, you don't have anybody saying, "You guys need to implement some form of new MRI scanning." Or, "Here's the overall SOPs for how to take care of yourself. You need to do these scans at this time." None of that exists, other than super high level, get your dog's teeth cleaned, or whatever. I mean, it's all pretty industry driven. And so, it is absolutely in the fee for service, price per click. In a place where it seems like price elasticity of demand is extremely high.

And so, people have been very willing and able to increase prices and pass them through. Prices are probably up, probably 100% in the last 10 years, for service.

Are you tracking new pet adoption rates across the country? Have they gone up, down?

I rely on IDEX's data collection on this. They have a really interesting cohorted chart of adoptions versus surrenders. And 2022 was below 2019, but higher than any other year. So, it's actually really fascinating. The whole narrative of the COVID puppy boom is sort of not true. There were a lot of adoptions, but it wasn't like a step change increase. I think where you saw a step change increase is below the data. We call it the rise of the DINKWAD, the dual income, no kids, with a dog. The with a dog component is the new piece. So, you've got people with an extremely high willingness to pay, this is their only focus. You had a lot of folks who did that, and that was a unique thing, that they adopted their first or second animal during COVID, but you didn't see actually an absolute rise at adoptions. Absolute adoption rates are actually down. But surrender rates are not up. The adoption rates are stable, and surrender rates remain low. So, we were a little bit worried that we would see the yield go down, where folks boomerang their pet back to the shelter, or whatever. Glad to see that human nature hasn't changed, and that's the percentage that remains stable.

There aren't enough veterinarians to provide the service, and the demand, in the form of number of pets per veterinarian, that ratio has continued to climb, and is double what it was in 2000. You've got 90 million dogs, 95 million cats, that's like triple the number of kids. So, you just have this weird supply demand imbalance in the space. We need a lot more veterinarians to go into school. Part of the reason is that they come out of school with an average $135k to 150k income, depending upon your market. It's just not enough. They're forever in debt at that level, which I think is going to change, because there's actually an enormous amount of value that's being captured from them as the corporate consolidator, and I think they will net by sort of nature of the market, continue to capture an increasingly large percentage of that share, that will hopefully drive more people into the industry. But that's a massively long-term solution to the problem.

Do you see the PA, NP type of role developing in the vet business? And then secondly, it strikes me that your business model is sort of a fixed cost operation. You talked about the insurance, and I get it, but have you considered a prepaid model or subscription model that brings in some level of fixed income to mitigate that? I imagine there's spikes, and valleys in your volumes, depending on what happens in the business.

There is no mid-level provider in the industry today. The AVMA, which is sort of our equivalent of the AMA, actively opposes the concept, interestingly. There's a lot of discussion though, internally. We just had our big conference for the industry called VMX, down in Orlando, in January. And a part of that is they jostle for political position inside. Who's running for chair of the AVMA. And a couple of the folks are actually running on a platform of changing that stance, and saying we should have a mid-level provider as an option, because of this supply issue.

> Internally, in VEG, too, where we're pretty forward looking, I'd like to think, we are piloting the concept as a super high-level nurse, but by regulation they can't. They're not a doctor, so they can't diagnose.

There are some things that they just can't do, so the doctor has to come back and check on them. And so, for our business, where everything's helter skelter because it's emergency, it's not the most efficient thing in the world, but I can see people piloting the concept, and I think that you're going to see people start to try.

In terms of subscription, at VEG we've talked about it. We have not implemented anything because we haven't had to, candidly. It's continuing to be something that's simmering in the background for us. Given the emergency nature of it, given the fact that any subscription would only be for us, if I'm really going to do that, why wouldn't I as a consumer just get an insurance product? You do have some folks, Modern Animal, and Small Door being the two most prominent in the rise of these new generation of general practice clinics, where you are required to be a member of their service. And so, you pay $100 a month or whatever, and you have unlimited access to the vets on call, and there's a host of services you can receive. You still pay for all the regular add-on services, but the actual visit fees are comped. So you do have some folks who are trying this out, and to varying degrees of success. I think it's hard to implement, and I don't know that anyone's got a great solution. It feels like the primary care world, where being a member of one of the higher end subscription style clinics. I was a member of a subscription care service for a while, and then I stopped, because I was like, "I'm a reasonably healthy guy." The value add was sort of de minimis.

If the size of the market grows by 10% every year, you'd think that it would attract new investment, and new ideas on the payer side, if it isn't already.

That is kind of fascinating. So you've got Nationwide and Trupanion. Trupanion is a standalone independent public company, and does not trade well, because they have not been able to get adoption rates up. Penetration rates are flat. You always hear this thing of in Scandinavia, pet insurance rates are like 50%, or something, and here they are 2%. And so what's the deal? Why is the disconnect? I've not heard a coherent answer to that question, but that seems to be the whole investment thesis, the long thesis for Trupanion.

Have you seen anything in the world of pet elder care, or pet hospice?

So there are. I wouldn't call it hospice, but end of life. In my opinion, that's where the vet industry differs, just really fundamentally from human health, in terms of actual the care provision. Because you're making an economic decision on end of life. Does it no longer make sense? Is quality of life so bad for this animal now, that it's better for them for us to euthanize, and do it humanely, rather than you spend infinite dollars to the very end of the last day? It's fundamentally very different from human healthcare in that way. There are some really good businesses that are doing in-home euthanasia. So, a company called Lap of Love is the best one, I think, and they essentially provide end of life care at home with you, and it makes it a much more palatable experience. I'm sure a lot of folks on the phone have had the thing where you wake up and the dog's just very, very sick. And I mean 10% of cases that come into VEG are euthanized by nature of them being emergencies.

Who are the operators in the space who you admire the most, who you think are occupying their rightful space as consolidators, and leaders setting an example to others, and should be around for decades to come, ensuring that there's sort of a high-quality standard that's maintained across the industry?

I think the best consolidator is SVP, Southern Vet Partners. They consistently have the lowest level of price increases, and they hammer that point home, have a level of consistency of operations across their sites that others don't, even though they're largely acquisition based, and they've had the most success, from what I can tell from a third party's perspective, on their de novo strategy...

> ...taking existing strong associate doctors, giving them an opportunity to buy a clinic, rather than trying to do it sort of externally.

So, they're willing to sacrifice some of a given clinic to ensure professional progression, and personal progression of some of their team members. So, I think they treat their people right. I think that business will continue on as an independent business. I think everybody else is okay. I mean, NVA is very impressive. Some of these are very, very impressive businesses. I think NVA is run by guys like me, a bunch of private equity guys. So, because of that, it's a really well-run business, and it'll certainly persist. Nobody could buy them. They're way too big now. I don't mind competing with NVA. I don't mind competing with VCA, which is Mars's big GP platform. I'd prefer not to compete with SVP. Everybody else is kind of the same, in my opinion. I don't love competing with the Modern, Small Doors, Bond Vets of the world, because they're more creative than those other folks, to the detriment, I think, of our ability to recruit and retain talent, which is the big trick. But I think we're going to kind of see what happens with a lot of those folks. I think you'll see the shakeout of those kinds of concepts during this demand moderation phase of the business, and we'll see who's sort of real, and who's naked, who's over-levered. You've just got a subset of businesses that are very poorly run, that when the tide goes out, they're very clearly swimming naked. So, I think you're going to have some of those kinds of shakeouts. Candidly, I'm not super impressed with the quality of the teams across the industry, which is another part of the reason why it's a great space to play in, is the sophistication, and the quality of the teams has not matched the level of investment, and business quality, in my opinion. That's changing, but the last 10 years has seen a lot of people without a ton of skill be very, very successful.

And so, the Southern Group does well because leadership there is more conservative, probably growing at a slower pace as a result, less acquisitions, or have grown over the last few years at a slower pace?

I think it's the focus geographically. But Jay Price is the CEO founder. He's a DVM, he's a veterinarian. That's a big deal in this industry. Whenever you hear him speak, he really understands his business very well. He understands the drivers of the business, and I think he has a real pulse on his providers, which is extremely rare. I think that they have had a specific geographic focus, which you might imagine from the name. So interestingly the vet schools are largely local institutions. So, all the SEC schools have vet schools for instance. It's a very interesting dynamic. You have a very big concentration, outside of the traditional population density power alleys, and SVP I think has had a lot of success being in those areas where it would not be on your top 20 MSAs. VEG would not go there. They're not early on in our pipeline, but they've been able to play there, be very stable, and not have a ton of competition when they staff their clinics. Because there are folks who have like, "Hey, I actually really like Birmingham." There are two vet schools in Alabama, at Auburn, and in Alabama. So, you've got this kind of weird supply demand dynamic of the actual DVMs, and their distribution across the country is not ideal. And so, he says, at a conference a little while ago, he was saying that they've got that dynamic, versus California, the population to DVM graduation ratio is massively out of whack relative to some of these other states. So, I think they had a lot of success just knowing where to operate, and doing so well, and conservatively.

And you said something about a de novo acquisition formula that's unique to this Southern Group as well. Can you expand on that?

It's all very new, but they set out to do de novos for the first time I think ever, and did so, they dipped their toe into the concept. I think they opened four in 2022. But what they're doing, at least, again, from a third party's perspective, having talked to my counterpart over there briefly, is to take strong associates, and seed them as their own, for their own clinic essentially, rather than either just operating them until those folks left, or looking for having it be an actual net gain of a DVM, by attracting a third party and saying, "Hey, well come develop a hospital with us." They're, again, willing to do the conservative thing of taking a DVM from like a four DVM practice, seating them in their own space, and giving them autonomy in order to increase retention of those folks.

I was wondering if any of these companies are pursuing opportunities internationally? And if you see that in the vet space that there is a credible pathway to international businesses?

The regulatory framework is totally different in the vet space relative to human health, so expanding internationally isn't as fundamentally different, I think, as it can be on the human patient provider side. You don't see a ton of it. You do see some of it. I think we're actually going to see the opposite happen first, which is that IVC Evidensia, which is the big European outfit, they just took an investment from Silver Lake, they valued the business at $13 billion. They're a massive, vertically integrated provider over there. They bought Pet Partners. All the names, as always, blend together. They actually bought a Canadian platform as their first North American toehold, and I expect them to expand into the US here in the relatively near future. We're all kind of waiting with bated breath to see who they buy. My money's on Pet Vet, but just a guess. So I think you're going to see that. I think it seems like Mars has basically stopped growing in the US entirely. I think they're afraid of the FTC, with good reason. And so, I think you're starting to see them expand into Europe, and the UK, but there's not a ton of it. I think the opportunity in the US remains strong. And so, certainly none of the smaller providers, or consolidation groups have that, at least from what I've seen in any of the materials that I've ever read, as an actual stool of growth. I'm kind of waiting to see when they file S1s for those two businesses, for Thrive, and for NVA, as to what focus that is, because certainly NVA is pretty saturated, and they just acquired Sage, and Ethos in the back half of 2021, both of which were challenged by the FTC, and they required divestitures. So they were kind of at their limit for even 20 practice groups. And so, I think they're kind of at their limit of real expansion inside domestically, which is going to be a part of the problem. We've considered going to Toronto for instance, because you've got six vet schools in Canada, and there's, say, one-tenth the population in Canada versus the US. The DVM to population ratio is pretty high in Canada versus the US, so it's not the worst place to try to go build a business.