State of the Industry

Provided through a generous educational grant from the IDEXX INSTITUTE and IDEXX Laboratories, Inc.
Mike Cavanaugh, DVM, DABVP
Chief Executive Officer
American Animal Hospital Association
Session Overview

Snapshot of the economy

Separating GOOD from GREAT practices

What pet owners think

Expert panel discussion
Snapshot of the economy (Mar 2014)

Stock market

Consumer spending

Employment
Snapshot of the economy (Mar 2015)

- Stock market
- Consumer spending
- Employment
Economic Trends

S&P/Case-Shiller 20-City Composite Home Price Index©


Civilian Unemployment Rate


Personal Consumption Expenditures


S&P 500

Snapshot of annual practice growth

<table>
<thead>
<tr>
<th>Metric</th>
<th>Growth Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Active patients</td>
<td>0.9%</td>
</tr>
<tr>
<td>Patient visits</td>
<td>1.4%</td>
</tr>
<tr>
<td>Practice revenue</td>
<td>5.1%</td>
</tr>
</tbody>
</table>
Snapshot of annual practice growth

Patient Visits: Year-to-Year % Change

Clinic Revenue: Year-to-Year % Change
Revenue Growth 2013-2014

Percent of hospitals

- **Decliners**
  - < 0%
  - 25%

- **Growers**
  - 0 – 10%
  - 51%

- **Outgrowers**
  - > 10%
  - 24%

**Consistent Outgrowers**
2 years in a row!
Revenue Growth 2013-2014

Percent of hospitals

Decliners: < 0%
Growers: 0 – 10%
Outgrowers: > 10%

Power Outgrowers
3 years in a row!!
Location does not determine growth

- Growers and Outgrowers
- Decliners
## Snapshot of annual practice growth

<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Active patients</td>
<td>0.9%</td>
</tr>
<tr>
<td>Outgrowers</td>
<td>9.0%</td>
</tr>
<tr>
<td>Growers</td>
<td>0.3%</td>
</tr>
<tr>
<td>Decliners</td>
<td>-5.4%</td>
</tr>
</tbody>
</table>
Outgrowers Strengthen the Bonds
But what do pet owners think?
We surveyed 1,001 pet owners who...

... Have at least one dog and/or cat

... See their veterinarian regularly

... Are the primary care provider

... Don’t work in the pet-health industry
93% believe the Bond they have with their practice is important
Most important to Strengthen the Bonds

1. Explains things in a way I understand
Why clients stay

Explains things in a way I understand

Reputation
Cost
Medically advanced
Why clients switch
Why clients switch

Beyond your control (e.g., move, pet dies)
Why clients switch

Cost

Beyond your control (e.g., move, pet dies)
Why clients switch

- Cost
- Beyond your control (e.g., move, pet dies)
- Poor communication & customer service
Most important to Strengthen the Bonds

1. Explains things in a way I understand

2. Shares test results with me
Explaining the value of diagnostics

Always follow recommendation for routine blood testing

3 out of 10

Would probably agree to testing if value made clear

8 out of 10
Patient lifetime revenue potential 4X opportunity

Lifetime revenue from typical 12-year-old dog

Total veterinary practice revenue

- $17,700 AAHA standards 100% compliance
- $13,600 Outgrower with high diagnostics utilization
- $3,600 Average practice

Source: IDEXX analysis, data on file.
Patient lifetime revenue potential 5X opportunity

Lifetime revenue from typical 12-year-old dog
Total veterinary practice revenue

$17,700 AAHA standards
100% compliance

5X

$3,600 Average practice

Source: IDEXX analysis, data on file.
Most important to Strengthen the Bonds

1. Explains things in a way I understand
2. Shares test results with me
3. Treats me as a partner
Pet owners want to be informed

Researching pet health online before or after visit

6 out of 10

Receiving suggested online resources from veterinarian

3 out of 10
30% reduction in Dr. Google when you simply recommend an online source

Percent of pet owners that consult “Dr. Google” before or after visit

Veterinarian doesn’t recommend “trusted” online resource

70%

Veterinarian does recommend “trusted” online resources

48%

Source: Survey of 500 pet owners with regular veterinarians, 12/2013. Data on file with IDEXX.
Most important to Strengthen the Bonds

1. Explains things in a way I understand
2. Shares test results with me
3. Treats me as a partner
4. Provides guidance on preventive care
Pet owners are interested in preventive care

Believe discussing disease prevention is important

Discussed preventive care with veterinarian at last checkup visit

9 out of 10

6 out of 10
8 out of 10 interested in monthly payment preventive care plans

No difference in interest based on income
# Closing the gap in Forward Booking

## Average % of clients Forward Booked

<table>
<thead>
<tr>
<th></th>
<th>U.S. Dental Practices</th>
<th>U.S. Veterinary Practices</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>80%</strong></td>
<td></td>
<td><strong>5%</strong></td>
</tr>
</tbody>
</table>

Source: AAHA State of the Industry 2013
Pet owners are open to “Forward Booking”

6 out of 10 will say “yes” to Forward Booking
When pet owners learn about AAHA accreditation

81% Would choose an AAHA accredited hospital over a non-accredited hospital

44% Would be willing to pay more for the assurance that comes from choosing an accredited hospital

51% Would drive farther for an accredited hospital

Source: AAHA/Trone Study, 2014
## The value of accreditation

<table>
<thead>
<tr>
<th>AAHA-Accredited Practices</th>
<th>Others</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Active Clients</strong></td>
<td>4,415</td>
</tr>
<tr>
<td><strong>New Clients</strong></td>
<td>614</td>
</tr>
<tr>
<td><strong>Avg transaction charge</strong></td>
<td>$152</td>
</tr>
<tr>
<td><strong>Income per FTE veterinarian</strong></td>
<td>$589,000</td>
</tr>
</tbody>
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Most important to Strengthen the Bonds

1. Explains things in a way I understand
2. Shares test results with me
3. Treats me as a partner
4. Provides guidance on preventive care
5 things to do today to Strengthen the Bonds

1. Commit to higher team standards, including AAHA accreditation
2. Forward book checkups
3. Provide postcard reminders and trusted resources
4. Attend the preventive care plan session
5. Explain the value every time
State of the Industry

For inspirational stories and more information, go to...

http://www.idexx.com/strengthenthelbonds

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Read more about the State of the Industry in *Trends magazine* or go to aaha.org

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Discussion

Dr. Anthony DeCarlo
Red Bank Veterinary Hospital

Dr. Mike Erickson
IDEXX Laboratories

Dr. Nancy Soares
Macungie Animal Hospital

Dr. Karen Felsted
PantheraT

Mr. Steve Dale
Steve Dale’s Pet World

Dr. Pamela Nichols
Animal Care Center, K-9
Rehab Center and the
Utah Dog Parks