Jon Moulton's Diary

Buyout firms have treated the veterinary business as a bit of a cash cow but the CMA report offers a dog's breakfast of remedies

Veteran financier Jon Moulton has been involved in buyouts, turnarounds and venture capital since 1979 with firms such as CVC, Permira, Apax, Alchemy and, most recently, Better Capital, where he has been the chair since 2009

I am writing shortly after the publication of the Competition and Markets Authority (CMA) report on the veterinary industry in the UK. The report is only 1,013 pages long.

Dogs do not know how lucky they are that they cannot read. I've read it.

Private equity has taken a leading position in the vet business with investments ranging from cremation services (about £300) to insurance providers to "GP" vets to heroic surgery of many types to (worthless, but not priceless,) herbal remedies.

Not so many years back the industry was full of lots of "Yorkshire Vets" (TV series for younger readers) with small partnerships of GP vets as the most common model.

Now arrives private equity (and a few entrepreneurs) who see a roll up opportunity, and rollup they have, with six groups — three private equity ones, two PLCs (doubtless take-private targets) and Mars Petcare doing the dominating.

Since private equity became involved, prices have soared. Profit-seeking, cost-cutting, marketing, vertical integration, reduced competition and cross selling of services have resulted in the cost of pet ownership soaring.

Brits are mostly generally quite passive souls, but many would probably leave their spouse than their dog.

The result for the petcare industry is visible in the share price of Pets at Home, which has seen a drop from a peak of 518p in 2021 to 181p today.

The CMA are now delivering a mass of regulations with a new regulator to tackle many of the issues it found. Central is a great increase in price visibility and clear controls to ensure that financial pressure does not lead to unethical behaviour — but there is lots more.

Seen before

Politics getting in the way of private equity return maximisation has been seen before.

One example with a lot of publicity has been nursing homes where some chains failed largely because of excess leverage of some form — rents or interest or both.

Another example is the mess that Thames Water has got into from lunatic debt of supreme complexity, which has led to considerable criticism of private equity. Sewage in your trout stream and clever dividends fit poorly together!

'There is no disguising the fact that all these industries have generated examples of PE excess with unpleasant consequences'

Residential clinics, schools and childcare are other industries where PE has been particularly criticised for taking too much cash out to the detriment of the business. Underinvestment can lead to failure. Failure in these trades is potentially awful for customers.

In the USA, there is extensive criticism of PE ownership in the domestic healthcare industry.

There is no disguising the fact that all these industries have generated examples of PE excess with unpleasant consequences mostly landing on customers.

More worrying is to see, as you would if you spent a day reading it, that the CMA report has a concept of excess return on capital that customers should be paying for.

In a well-functioning market, we would expect more of these profits to be competed away through lower prices or greater investment in quality.

Evidence of excess profitability is therefore consistent with the overall finding that there is not enough strong competition between veterinary businesses.

In the CMA report, this is supposed to be resolved through statutory remedies, and surprisingly not through break-up to generate more competitors. Excess profits down, regulation up. As greater regulation generally favours the larger businesses you cannot but wonder if the remedies will have the impact intended — but we will see.

Certainly, in the UK, there is a swing to protect consumers at the expense of capitalism, eg the car loans market.

Choose your targets carefully before you invest!

The prices now being charged for visits to the vet are enough to make any pet sad

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