



PHOTOGRAPHY: ISTOCKPHOTO PHOTO ILLUSTRATION: SARAH DIAB



# Selling Strategy

The right exit plan can put more money in your pocket and keep an asset in your community

*By Ed Webman, RPh*

Over the years, you have made lifelong customers who have placed their utmost trust in you, hired employees you are proud to call friends, and your pharmacy has become a fixture in the community. But the time has finally come for you to retire and enjoy the life you have worked for. It is a time many people look forward to, but for a pharmacy owner, one question has to be answered before retirement. To whom do I sell? Walgreens, CVS, and Rite Aid have all made offers. You have resisted for a long time, knowing that your pharmacy will be lost to the community forever, and understanding the consequences that the transition will have on your customers and employees. But you know the time has come to retire, and now it is up to you to decide which option is best.

But there is another option. An option that will allow your customers to continue receiving personal service, secure jobs for your employees, and prevent your business from becoming yet another chain. You may believe that it is difficult to sell to an independent owner during challenging economic times. However, if you are willing to take a little time and look at your options, you will see that it is possible. In the last two years, I have seen the good and bad in all aspects of transition and can tell you that with a few simple steps, you can enhance the sale of your pharmacy and keep it alive and serving the community for decades to come.

When you begin to look to sell, **finding accurate legal and accounting guidance needs to be the foremost thought on your mind.**

### **Create an Exit Timeline**

The most critical error I have observed is that sellers do not set a timeline for their exit strategy. This results in a rushed sale, benefiting the buyer while impairing the seller's retirement livelihood. While it takes years, and in most cases decades, to firmly establish a pharmacy, too many owners try and consummate the sale within months. Simply setting a target date for sale will enable you to accomplish many tasks needed to maximize the return on the business you built. It can take several months or a year to find a suitable buyer who you believe is capable of purchasing and successfully operating your business well into the future.

While this period may take longer than selling to a major chain, with thousands if not millions of dollars at stake, it is worth your time to best position yourself for the sale. During this process, you will first need to seek proper legal and accounting advice to ensure that you maximize your return to properly protect yourself. Additionally, you will need time to clean up your financial statements and get an accurate count on your inventory. During this process, you will be able to spruce up your pharmacy for the best possible sale.

When you begin to look to sell, finding accurate legal and accounting guidance needs to be the foremost

thought on your mind. Unfortunately, many sellers do not truly understand the tax consequences they face when selling their pharmacy. Many transactions still involve Sole Proprietorships and C-Corporations. And while many owners have adequate, if not excellent, representation using local accountants or certified public accountants, they are often out of their realm of expertise when dealing with ownership transition. If the sale is not properly structured, the tax consequences for the seller can be staggering. For the owner's own financial security, there comes a time to seek additional advice from an industry-specific accountant or CPA. As you look to their guidance to minimize your tax consequences, be aware that the timeline for sale can be two to three years to properly reposition your business ownership structure. While this guidance may cost you a little money upfront, the return at the time of the sale will most likely be well worth the investment for the analysis and consultation.

### **Get Finances in Order**

Simultaneously, straighten up your financial statement. The chosen buyer and their lender will want to review at least the past three years' tax returns on the pharmacy, your current profit and loss/income statement, and balance sheet. Your primary concern for this process will be to provide clear and accurate revenue and expense reports. This requires eliminating personal expense charges you previously passed through the company for tax purposes. As the seller, you need to separate yourself from the business so your personal expenses do not affect the evaluation of your business. Throughout this process, you may be able to document extraordinary income and personal expenses; however, always keep in mind that it will be easier to get full asking price and thus financing if you can provide a bank with accurate statements that report true income and expenses.



PHOTOGRAPHY: ISTOCKPHOTO

With your tax planning arranged, you should look to consult with an industry-specific attorney. As you get closer to the sale, you will need assistance in drafting or reviewing purchase and sale documents such as the non-disclosure agreement (“NDA”), letter of intent (“LOI”), and the actual purchase contract. Much like the industry-specific accountant or CPA, you will need to invest money to ensure the best possible assistance on this transaction. In most cases, attorneys with little or no experience in pharmacy transactions will actually be more expensive as they bill you for research time. An industry-specific attorney will not only have the proper documentation and knowledge to properly protect you, but will actually save you money because they have the knowledge and documentation readily available.

### **Spruce up Before the Sale**

As you prepare to sell your pharmacy, you will want to treat it much like a house you want to sell. With a house, you would not allow any potential buyers to come by until you added a coat of fresh paint, maybe replaced the carpet, or upgraded the kitchen. Similarly, you can take advantage of some relatively easy and inexpensive repairs to better position yourself to obtain the full asking price. This is not limited to repairs though. Just like you might add a dishwasher to an older house to improve the selling price, you can add or replace old equipment in your pharmacy to help raise or meet your selling price point.

One update that will not only improve your ability to obtain full asking price, but will also prove to be invaluable as you attempt to sell, is a computer system that tracks and manages inventory. Inventory is the most critical aspect of your business and you need to focus on it early. Bring in a firm to get an accurate physical inventory count. With this information, you can institute the new inventory tracking and computer system to provide you with accurate and timely information that you can then supply to the buyer and bank. As you get your inventory count settled, be aware that the buyer and their lender will most likely want reports detailing average script prices, number of refills, new fills, top 100 drugs, and top 10 payers going back three years. Along with tax statements, this information is invaluable in helping you prove the value of your pharmacy.

### **Maximizing the Sales Return**

When you have made your preparations and are ready to begin shopping your pharmacy to buyers, there

### **FRONT-END OVERHAUL CAN HELP PREPARE FOR A SALE**

Ed Webman recommends sprucing your pharmacy up before the sale. NCPA's Front-End Overhaul is a great resource to use as you begin your preparations. The program provides the opportunity to learn from and consult with an expert in topics such as store layout modifications, merchandising, curb appeal and advertising. At the core of Front-End Overhaul is an informational and interactive website, exclusively for NCPA members. The site includes a vast resource of timely product information, inspiring front-end department assistance, every-day merchandising tips, inventory suggestions to assist in growing and creating sales, and much more. Visit [www.ncpanet.org](http://www.ncpanet.org) for more information about Front-End Overhaul.

are various ways to maximize the return on the sale, make it marketable to a larger pool of potential buyers, and expedite the time it takes to close. While many young associate pharmacists have minimal savings and considerable student loan debt, this does not exclude them as potential buyers. Despite minimal savings and debt, you can most likely demand and obtain full asking price by assisting in the financing with a commercial lender. This process only requires the buyer to provide a minimal equity injection of \$10,000 to \$50,000 while the bank finances 75 percent of the asking price plus inventory, working capital, and closing costs. Finally, you, the seller, finance the remaining 25 percent of the acquisition price. At this point, you can defer 25 percent of the capital gain tax and by financing 25 percent, you will gain additional payments from the seller longer after the original sale. Typically, you can demand repayment at 7 percent amortized over 10 years with a balloon payment due in two. This process allows you to obtain your full asking price, defer some of the capital gains and obtain a healthy return on your seller note. If you are considering selling your pharmacy, think about what you want to see happen to it when you finally walk away. **ap**

---

Ed Webman, RPh, is senior loan officer at Live Oak Bank. He can be reached at 407-539-0396, or at [ed.webman@liveoakbank.com](mailto:ed.webman@liveoakbank.com).