ADDRESSING THE SALE OF AN INDEPENDENT PHARMACY

ISSUES THAT IMPACT ON BUSINESS TRANSITION©

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OUR DISCUSSION TOPIC

Planning for the successful transition of your pharmacy to a new owner and all that the process entails
THE CHANGING ENVIRONMENT IN RETAIL PHARMACY

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<td>Independents</td>
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<td>Chains</td>
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<td>Mass Merchant</td>
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*1985 was the year that mail order pharmacy first became a factor in the U.S.
FACTORS WHICH INFLUENCE LOWER STORE COUNT

- Shrinking margins
- Powerful competition
- Managed care activities / PBMs
- Aggressive acquisition by the chains
- Lower interest in ownership among recent pharmacy school graduates
  - Few schools offer management classes
  - Chains offer big bonus and big salary
1980 – 2000
OWNERSHIP TRANSITION OBSTACLES

- Stores were sold for less than their true value
- Stores were sold to chains by owners who lacked knowledge, hadn’t planned for an exit
- Stores were closed up by owners who couldn’t find viable buyers
- Young pharmacists took the “easy route” to earning money, going to work in the chains for big salaries and not considering independent ownership a viable means of practicing their profession
GOOD NEWS FOR INDEPENDENT PHARMACISTS

The attrition of independents has ended, new stores are being opened for the first time in twenty years and a whole new generation of buyers in in the market
OPPORTUNITIES FOR EXISTING OWNERS

• Sell your pharmacy to another independent operator for a fair price, with good terms.
• Maximize shareholder value and turn that value into money to fund retirement or other business activities
• See the business you have built survive into the next generation
WHAT DOES THIS PROCESS REQUIRE??

Intelligent and thoughtful planning for the future with a sharp eye on the many details that exit strategy planning encompasses.

The timing window for this process could conceivably be as long as 10 years!!
ISSUES TO BE ADDRESSED BY PROSPECTIVE SELLERS

• What is the true market value of my pharmacy?
  – Seek professional evaluation or appraisal
  – Use Blue Book Value for Pharmacy Calculator

• How can I document/demonstrate that value?
  – Three years of financial records
ISSUES TO BE ADDRESSED BY PROSPECTIVE SELLERS

• Who is a qualified buyer?
• How can I find that buyer?
• How can/should the transaction be structured?
• What kind of professional help is required?
  – Attorney, accountant familiar with pharmacy
  – Broker or other consultant
ISSUES TO BE ADDRESSED BY PROSPECTIVE SELLERS

• What is the best time for marketing the sale of my pharmacy?
• What are the steps in this process?
  – Evaluation
  – Listing and soliciting buyers
  – Negotiation
  – Signing and closing the deal
ISSUES TO BE ADDRESSED BY PROSPECTIVE SELLERS

• What will happen to me AFTER I sell the store?
  – Ranges from staffing for new owner to full retirement

• Should I take the first offer I get from anyone, chain or independent, and cash out?
  – With a little planning you will not be in a situation where you need to cash out in an emergency
WHO SHOULD ASSIST YOU WITH THIS PROCESS??

- Your mother-in-law, who is lending you money.
- Your Uncle Joe, who once bought and sold a deli.
- Your best friend from pharmacy school who works in a chain store.
- Your attorney.
- Your accountant.
- Your banker.
- A qualified middleman, broker or advisor.
- Your partner (in business or in life, or both)
WHAT’S THE WORST THING YOU CAN DO??

The worst thing you can do is address the sale of your business under pressure or stress from outside influences, financial problems, family problems, poor health, pending new competition, etc.
THE PARAMOUNT ISSUE TO BOTH SIDES OF A DEAL

What is the value of the business and how can that be documented to the satisfaction of all parties to the transaction??

As an owner, you should know the value of your business BEFORE you attempt to sell it.
Pharmacy Valuation: The Question of the Ages

- A multiple of cash flow or some other profitability measurement.
- A percentage of annual sales.
- A fixed dollar figure times the number of prescriptions filled (weekly, monthly, annually).
- A multiple of the owner’s total compensation.
- A comparison against other transactions of a similar nature.
Market VALUE vs. Market PRICE

Market Value = The value that is ascertained by using one or more of the formulas that can be applied and/or by comparing against other transactions of a similar nature.

Market Price = What someone is willing to pay for a pharmacy, regardless of stated or documented value.
TO OBTAIN THE VALUE, ONE MUST....

• Review current and historical financials, at least three years
• Review Rx department statistics to determine the mix of business.
• Review purchase records to help determine gross margins.
• Review expenses to determine actual operating costs
What Are Buyers Looking For?

• CRITICAL FACTORS TO MAKING A DEAL WORK (THE BIG THREE!!)
  – The ability to draw a **managerial salary** commensurate with their work efforts.
  – The ability to earn a **return on any cash investment** they make equivalent to or better than current market returns.
  – The ability to **service any debt** incurred in the course of the transaction.
Why Are These Critical?

The Seller - Must demonstrate to the buyer why his business is worth what he/she says it is and how the loan could can be paid off. Particularly critical when the seller is providing financing of any kind.

The Buyer - Will feel comfortable that when he/ she assumes ownership they will be able to earn a living, pay their debt, build their equity.
How Do Buyers And Sellers Connect?

• Through advertising: store owner advertises his business for sale, fields inquiries from buyers.
• Via referral from a professional colleague or friend.
• Through business brokers who participate in the buy-sell process.
• By direct contact in the pharmacy
Traditional Deal Structure

• Purchaser contributes a certain amount of equity.
  – Often 20% or an amount equal to inventory

• The balance is financed over some reasonable period of time which often (but not always) matches the term of the lease.
  – Often structured for 10 years but final payoff date varies greatly
Sources Of Financing

• The seller holds the note/mortgage over an agreed upon term, collects principal and interest monthly.

• A bank lends the balance due after down payment to the buyer, not unlike a home mortgage.

• A wholesaler participates, or guarantees the note.

• A personal loan from a friend or relative.
Issues To Address

• Execution of a formal contract/purchase agreement
• Negotiation of a lease or assignment of existing lease.
• Application for the necessary licenses, third party provider agreements and provider numbers.
• Addressing employee transition issues
• Arrangements made for inventory to be taken.
HOW LONG DOES THIS PROCESS TAKE??

While there is no set timing, 6-12 months is the average “sales cycle” for the sale of an independent pharmacy, with many transactions taking even longer than that.
CONCLUSIONS

- The process takes careful planning.
- The process requires preparation.
- The process usually requires support and input from others.
- The process can be stressful.
- The process takes time, requires patience.
At the end of the process you will have successfully sold your business and will be able to enjoy the proceeds of the sale and the outcome.