



## 2015 Annual Convention

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**Date:** Tuesday, October 12, 2015  
**Time:** 8:00 am – 9:30 am  
**Location:** Gaylord National Harbor Resort and Convention Center, National Harbor 3

**Title:** Transitioning the Ownership of an Independent Pharmacy – Options for Current Owners and Prospective Buyers  
ACPE # 207-000-15-139-L04-P · 0.15 CEUs  
ACPE # 207-000-15-139-L04-T

**Activity Type:** Application-based  
**Speaker:** Jim Beatty, RPh, Buy-Sellapharmacy.com

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### **Pharmacist and Pharmacy Technician Learning Objectives:**

Upon completion of this activity, participants will be able to:

1. Discuss the effects that current changes in the pharmacy providing world are having on the buying and selling of independent pharmacies.
2. Describe the current valuation methods being employed by buyers and lenders when valuing an independent pharmacy for the purposes of a change of ownership.
3. Explain the options that prospective buyers have to become owners and of the various ways in which these options can be financed.
4. Discuss what many of their fellow independents have done and are doing to negate the impact of the current issues and activities that are impacting negatively on the value of independent community pharmacies.
5. Summarize exactly what it takes to get a proposed transaction, between a buyer and a seller who have agreed upon the price, across the finish line.

### **Disclosures:**

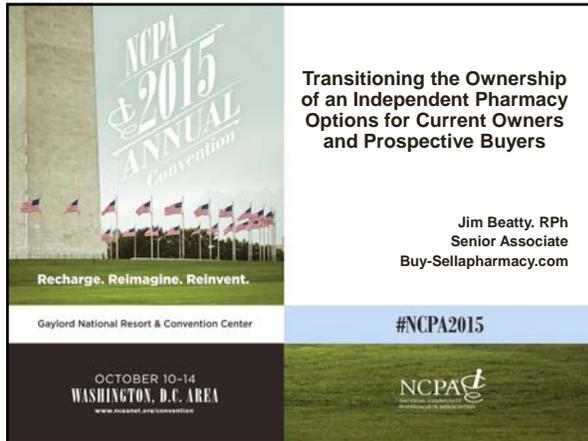
Jim Beatty is an employee of Buy-Sellapharmacy.com. The conflict of interest was resolved by peer review of the slide content.

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**NCPA 2015 ANNUAL Convention**

**Transitioning the Ownership of an Independent Pharmacy Options for Current Owners and Prospective Buyers**

Jim Beatty, RPh  
Senior Associate  
Buy-Sellapharmacy.com

Recharge. Reimagine. Reinvent.

Gaylord National Resort & Convention Center

#NCPA2015

OCTOBER 10-14  
WASHINGTON, D.C. AREA  
[www.ncpanet.org/convention](http://www.ncpanet.org/convention)

NCPA  
National Community Pharmacy Association

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## TODAY'S AGENDA/OBJECTIVES

- Describe the ownership options available to existing pharmacy owners and to prospective buyers.
- Explain the current valuation methods being employed by buyers and lenders when valuing an independent pharmacy for the purposes of a change of ownership.
- Outline the various options currently available for financing the acquisition of an independent pharmacy.



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## WHAT ARE THE OWNERSHIP OPTIONS FOR FIRST-TIME BUYERS?

- Purchase an existing pharmacy - **The most predominant form of entry into ownership**
- Open a brand new pharmacy – **Highest risk, usually not for a first time buyer unless it is a special situation.**
- Purchase a part-interest in an existing pharmacy from a current owner – **Could be buying a part-interest from an existing owner or buying out one or more existing shareholders/partners**
- Structure a “junior partnership” relationship with an existing owner – **Complex, requires careful structuring and much legal documentation, usually an existing relationship between the current owner and the junior partner.**



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## WHO IS BUYING INDEPENDENT PHARMACIES TODAY?

- Employee pharmacists, first time buyers who want to be their own boss, do it their way.
- Existing owners who want to go multiple (or already are and want to continue to grow), leverage expenses and build a small chain of their own.
- Investment groups of various types, particularly those with specialty pharmacy interests.
- The chains, corporate pharmacy groups who want to increase their market share, make new units productive.



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## WHY ARE PHARMACISTS BUYING?

- First timers - To earn more money and build more equity than they can as employees and to reduce risk, as opposed to starting from scratch.
- Multi-store owners - To leverage purchasing and operational capabilities to earn higher profits
- Investors/strategic buyers - To capitalize on industry opportunities that the current owner is not addressing
- Chains – To build marketshare in existing units and to eliminate independent competition



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## OPPORTUNITIES FOR EXISTING OWNERS

- To sell their pharmacy to another independent operator for a fair price, with good terms.
- To maximize the value of the business and turn that value into money to fund retirement or other business activities
- To see the business you have built survive into the next generation
- To capitalize on the current demand for independent pharmacy acquisitions, which continues to remain strong



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## CRITICAL ISSUES FOR BUYERS AND SELLERS

- What is the true market value of the pharmacy I plan to buy/sell?
- How can I/we document/demonstrate that value?
- How can/should the transaction be structured?
- What kind of professional help is required?
- How will the transaction be financed?
- What aspects of due diligence are critical to the process?



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**WHAT'S THE BEST THING YOU CAN DO AS BUYER OR A SELLER?**

**ADDRESS THESE ISSUES WITH CAREFUL PLANNING, THE UTMOST CONFIDENTIALITY, THE ADVICE OF TRUSTED ADVISORS AND FAMILY MEMBERS AND A COMPLETE LIST OF DETAILS TO ATTEND TO PRIOR TO MOVING FORWARD**



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**WHAT'S THE WORST THING YOU CAN DO AS A BUYER OR A SELLER?**

**ADDRESS THESE ISSUES WHEN YOU ARE UNDER PRESSURE OR STRESS FROM OUTSIDE INFLUENCES, FINANCIAL PROBLEMS, FAMILY PROBLEMS, POOR HEALTH, PENDING NEW COMPETITION, ETC.**



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**THE PARAMOUNT ISSUE TO BUYERS AND SELLERS WHEN CONTEMPLATING A TRANSACTION**

**WHAT IS THE VALUE OF THE BUSINESS AND HOW CAN THAT BE DOCUMENTED TO THE SATISFACTION OF ALL PARTIES TO THE TRANSACTION?**



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## PHARMACY VALUATION... THE BURNING QUESTION

- A multiple of cash flow or some other profitability measurement (EBITDA). Favored by lenders and financial buyers.
- A percentage of annual sales. Not really relevant in today's times due to diverse types of practices/pharmacies.
- A fixed dollar figure times the number of prescriptions filled (weekly, monthly, annually). Used by chains primarily.
- A multiple of the owner's total compensation (ODP). Buyers can relate to this method but not always easy to ascertain.
- A comparison against other transactions of a similar nature. Necessitates access to this kind of information.




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## MARKET VALUE vs. MARKET PRICE

Market Value = The value 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**




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## WHAT DO BUYERS NEED? CRITICAL FACTORS TO MAKING A DEAL WORK

- 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.

(These haven't changed in 40 years!!)




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## TO OBTAIN THE VALUE, ONE MUST....

- Review current and historical financials, tax returns and P & Ls, at least three years of history. Helps determine trends.
- Review Rx department statistics to determine the mix of business. Rx mix by product and payer important in this process.
- Review purchase records to help determine gross margins.
- Review expenses to determine actual operating costs, net of extraordinary or one-time expenses



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## WHAT MAKES PHARMACIES MORE VALUABLE?

- Above average profits, gross or net
- High volume/solid growth trends
- Fully staffed and well managed
- A long lease at reasonable rent
- Updated physical plant
- A special situation or practice model, one that differentiates the business from others
- A great location
- Limited/no competition



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## WHAT MAKES PHARMACIES LESS VALUABLE?

- Uncertain market conditions
- Declining sales and/or profits
- Weak financial statements, particularly low gross margins, which make financing difficult or impossible to obtain
- Excessive occupancy charges
- Excessive compensation to key employees
- Overstaffing



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**FINANCING BY ANY OUTSIDE SOURCE REQUIRES**

- Cooperation and participation of both buyer and seller.
- Current and historical financial information, tax returns, profit and loss statements, credit reports and other operational information.
- The ability to create reasonable and believable projections of future sales & profits.
- Attention to detail and timely delivery of requested information.



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**GETTING A DEAL CLOSED REQUIRES...**

- Execution of a formal contract/purchase agreement, possibly a letter of intent as well.
- Negotiation of a lease or assignment of existing lease.
- Application for the necessary licenses, third party provider agreements and provider #s.
- Dealing with employee transition issues and post-closing staffing, include seller's role.
- Taking of inventory and agreement on how to value inventory, what is and isn't to be counted.



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**MAINTAINING CONFIDENTIALITY**

- It is **CRITICAL** to keep competitors, suppliers, prescribers, employees or customers from learning about a proposed transaction.
- Difficult to do if anyone, particularly suppliers, become aware of pending transaction.
- Any last minute (threat of) erosion of business can have a negative effect on getting a transaction closed.



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## CONCLUSIONS

- The process of buying or selling takes careful planning.
- The process requires extensive preparation by all parties to a transaction.
- The process will probably require support and input from others.
- The process can often be stressful.
- The process takes time, requires patience.



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**QUESTIONS??**

**COMMENTS??**

**DEBATE??**



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