HEIGHTS CARE PHARMACY

"Taking Patient Care to Greater Heights"

Good Neighbor Pharmacy NCPA Pruitt-Schutte Student Business Plan Competition 2012

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Executive Summary

Heights Care Pharmacy (HCP) has remained the gold standard for traditional pharmaceutical care in the Little Rock Heights Community for the past eighty-four years. The current proprietor of the store wishes to transfer ownership after thirty-five years of loyal service to the community. A six-year junior partnership will be established between the current proprietor and three buyers: Tyler Shinabery, Brandyn England, and Blake Johnson. During this time, Tyler Shinabery, the current pharmacy intern, will serve as the full-time junior partner. Brandyn England and Blake Johnson will function as silent equity partners while retaining outside employment. Goodwill will transfer seamlessly from the current proprietor to Tyler Shinabery by completing a two-year period of employment overlap at the beginning of the junior partnership.

Heights Care Pharmacy operates as a traditional goods-based pharmacy. HCP is focused on being a one-stop-shop for the Heights Community, selling everything from medication to hair dryers. The store lacks a unified marketing plan, limiting its potential impact on the healthcare of this small-business-oriented neighborhood. This overall lack of development stigmatizes Heights Care Pharmacy with an outdated brand of pharmaceutical care.

HCP is centrally located in the Heights neighborhood, one of the most prominent communities in central Arkansas. It is populated with highly educated, forward-thinking, affluent individuals who place the utmost importance on the community. The patient population continuously strives to provide the best living atmosphere for their families by maintaining a tight-knit, small-business infrastructure in the midst of a hectic city. This tight-knit community supports HCP with 38% cash prescription sales, an unprecedented amount compared to pharmacies in less affluent areas. These sales allow HCP to comfortably operate with a net profit comparable to pharmacies in the top 25% nationwide. However, parallel to bottom-tier pharmacies, an overflowing inventory and an unfriendly frontend layout significantly restrict the gross profit and overall financial capability of the store.

New ownership will implement a wellness-centered business model that places priority on the healthcare values of each patient. Innovative patient care services will be designed to allow patients to become more influential in their healthcare delivery process. Service-based pharmacy programs are virtually non-existent within the defined trade area of the store. HCP will increase the amount of commodities sold with services and cement a competitive advantage with personalized healthcare.

Heights Care Pharmacy will also exploit the full capability of a doctor of pharmacy by starting a revolutionary genetics-based medication-management program, TailorFitRx. This program is designed to monopolize an untouched market of pharmacists-guided, personalized medication dosing that is based on a patient's individual genetic make-up. HCP will use this service, among many others, to build upon the business foundation established from decades of traditional dispensing and tireless community service. Heights Care Pharmacy stresses the "community" in independent community pharmacy and will provide today's healthcare with the science and technology of tomorrow.

Summary of Loan Request

Name of Applicants:	Brandyn England, Blake Johnson, Tyler Shinabery
Name of Business:	Heights Care Pharmacy *LLC* 1230 Kavanaugh Boulevard Little Rock, AR 72207
Amount of Loan Request:	$411,000
Terms of Request:	Borrowers are applying for an amortizing 10-year loan in the sum of $411,000 with a set interest rate at current market value. The borrowed amount will be used to purchase the remaining 50% of Heights Care Pharmacy.
Collateral:	$105,000 ($35,000 per shareholder of personal assets) in lieu of default payment
Personal Guarantee:	Borrowers agree to sign a personal guarantee of repayment for the amount of the loan.
Loan Repayment:	Borrowers will repay the loan in monthly installments of $4,359.29 over the 120-month life of the loan. Payments will be drawn from the business cash flow of Heights Care Pharmacy.
Other Terms:	Borrowers will retain life insurance equivalent to the loan for the life of the loan. Borrowers will provide annual financial statements to the lender.
Market Value:	$510,673.48 (Assets) - $88,491.70 (Liabilities) = $422,181.78 (Market Value)
Debt-to-Equity Ratio:	0.087

Traditional Junior Partnership (Table 1)

	End Of Yr 1	End Of Yr 2	End Of Yr 3	End Of Yr 4	End Of Yr 5	End Of Yr 6	Total
Pharmacy Value	$ 614,223.34	$ 651,076.74	$ 690,141.34	$ 731,549.83	$ 775,442.82	$ 821,969.38	
Jr Ptnr % Own †	0%	10%	20%	30%	40%	50%	
$ to Seller	$ -	$ 32,553.84	$ 34,507.07	$ 36,577.49	$ 38,772.14	$ 41,098.47	**$ 183,509.01**
Net Profit	$ 117,996.31	$ 125,076.09	$ 132,580.65	$ 140,535.49	$ 148,967.62	$ 157,905.68	
Seller % Own ‡	100%	100%	90%	80%	70%	60%	
Seller NP $	$ 117,996.31	$ 125,076.09	$ 119,322.59	$ 112,428.39	$ 104,277.33	$ 94,743.41	
Total to Seller	$ 117,996.31	$ 157,629.93	$ 153,829.66	$ 149,005.88	$ 143,049.47	$ 135,841.88	**$ 857,357.13**

Remaining 50%	**$ 410,984.69**
Total Payment	**$1,268,341.82**

Pharmacy Value: Based on the average of five methods of pharmacy valuation detailed in the 2011 NCPA ownership academy manual (1).

† **Jr Ptnr % Own:** the percentage of the store that the buyers own **AT THE END** of each fiscal year of HCP.

$ to Seller: represents the negotiated 5% purchase price of 10% of the business accounting for 6% annual store growth. This price is equivalent to ~$10,000 per purchaser per year.

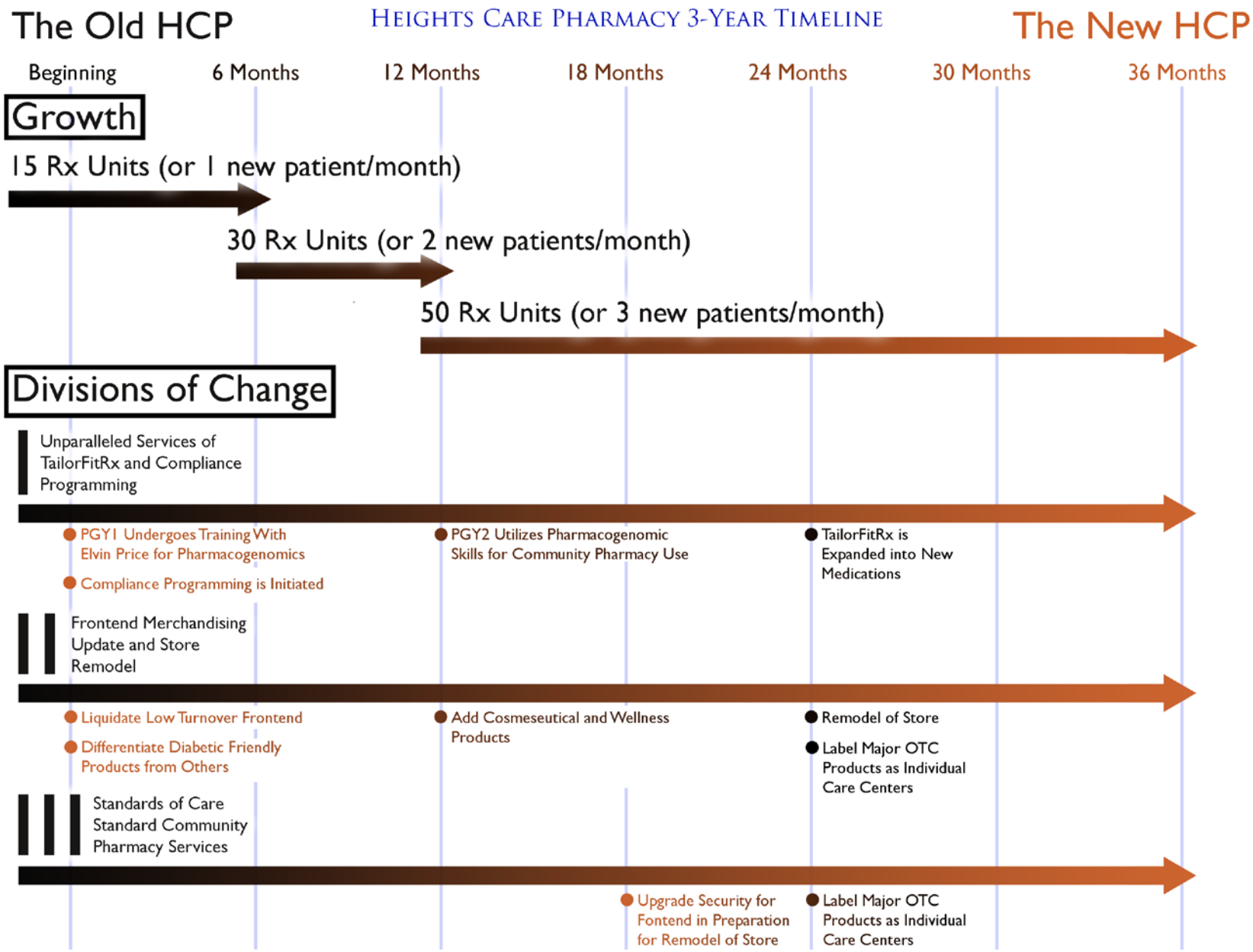
Net Profit: Total net profit that the store would be taking in based on the initial purchase price accounting for 6% annual store growth.

‡ **Seller % Own:** the percentage of the store that the seller owns **THROUGHOUT** each fiscal year of HCP.

Total to Seller: represents the sellers % net profit for the year plus the money to the seller from row three for 10% of the store.

Remaining 50%: Estimated value of the store after six years of junior partnership assuming 6% annual store growth.

Total Payment: sum of the Total to the Seller from the six year junior partnership along with the remaining 50% to be paid as a lump sum at the end of year six with a traditional business loan.


The Old HCP
Heights Care Pharmacy 3-Year Timeline
The New HCP
Beginning
6 Months
12 Months
18 Months
24 Months
30 Months
36 Months
Growth
15 Rx Units (or 1 new patient/month)
30 Rx Units (or 2 new patients/month)
50 Rx Units (or 3 new patients/month)
Divisions of Change
Unparalleled Services of TailorFitRx and Compliance Programming
PGY1 Undergoes Training With Elvin Price for Pharmacogenomics
Compliance Programming is Initiated
PGY2 Utilizes Pharmacogenomic Skills for Community Pharmacy Use
TailorFitRx is Expanded into New Medications
Frontend Merchandising Update and Store Remodel
Liquidate Low Turnover Frontend
Differentiate Diabetic Friendly Products from Others
Add Cosmeseutical and Wellness Products
Remodel of Store
Label Major OTC Products as Individual Care Centers
Standards of Care Standard Community Pharmacy Services
Upgrade Security for Fontend in Preparation for Remodel of Store
Label Major OTC Products as Individual Care Centers

Potential Market & Financial Analysis

Potential Market

Neighborhood	Total Population	Annual Arkansas Rx # per person	NCPA Average Rx Price	Percentage in Trade Area	Potential Prescription volume
The Heights (72207)	9,521	15.3	$57.64	100%	$8,396,493
72202	6,441	15.3	$57.64	35%	$1,988,093
72205	23,753	15.3	$57.64	25%	$5,236,895
72227	5,160	15.3	$57.64	15%	$682,584
Totals	**44,875**	15.3	$57.64		**$16,304,065**

Ratio Analysis

The Good	HCP	NCPA
Return on Investment	23.5	19.9
Current Ratio	5.5	4.1
Accounts Payable	5.4 days	14 days
Improvement Targets	**HCP**	**NCPA**
Annual Prescription Inventory Turnover	10.3	12.4
Sales per Sq. Ft.	$975	$1168
Cost of Goods Sold	81%	76%

Summary of Finances

	2012	2013	2014	2015
Total Sales $	$2,685,517	$2,776,871	$3,146,936	$3,573,649
COGS $	$2,168,536	$2,193,728	$2,454,610	$2,787,445
COGS %	81%	79%	78%	78%
Gross Profit $	$515,187	$583,143	$692,326	$786,203
Gross Profit %	19%	21%	22%	22%
Expenses $	$397,191	$437,793	$495,996	$534,470
Expenses %	15%	16%	16%	15%
Net Income $	$117,996	$145,350	$196,329	$251,733
Net Income %	4%	5%	6%	7%