

# Keys to Buying, Selling and Understanding Pharmacy Valuations

Presented by Directors of Pharmacy Acquisition:

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**Chad Sanders, Brett Fortier, Judd Wilstead**

Brett Fortier is an employee of Cardinal Health. The conflict of interest was resolved by peer review of the slide content.

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## Learning Objectives



- Discuss opportunities and obstacles within the buy/sell process.
- Outline realistic expectations about the value of a pharmacy in today's market, and how to obtain financing.
- Discuss lending strategies and outline deal structuring.

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## Pharmacy Transition Services



- 92 combined years pharmacy industry experience
- 22 combined years transitioning pharmacy ownership
- More than 700 pharmacies transitioned
- More than 2,500 pharmacy valuations performed

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## Presentation Overview



- Community Pharmacy Today
- Seller and Buyer Planning
- Transition Process Overview
- Pharmacy Valuations
- Financing and Purchase Structure
- Transition Timeframe
- Types of Buyers
- Conclusion & Questions

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## Community Pharmacy Today

- 22,041 Pharmacies
  - Approx. 1,000 will change hands each year
- \$3.61 Million annual revenue
- 59,746 annual Rx
- 84% Generic
- 22.1% Gross Profit (lowest in 10yrs)
- Avg owner > 62 yrs
- 1.96– per owner

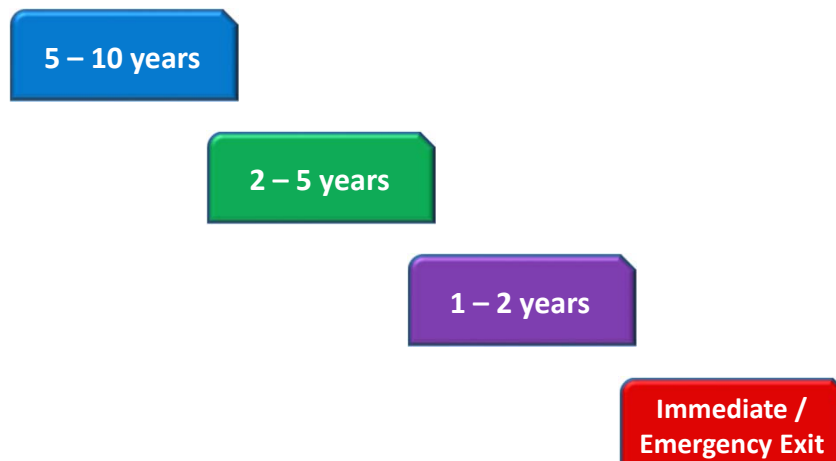


Source: 2017 NCPA Digest

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## Sellers – When is the right time?



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## Seller Planning



- Do you have a succession plan established?
  - Who will buy the pharmacy?
- Can you demonstrate a minimum two years of profitability?
- Do you have a team to assist with the transition?
  - Attorney, CPA, Business Partner(s), Wholesale Partner, Financial Planner, Etc.
- Is retirement entirely dependent on the proceeds of the sale?
- Have you considered the tax implications?
- How will this impact the employees and community?

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## Planning

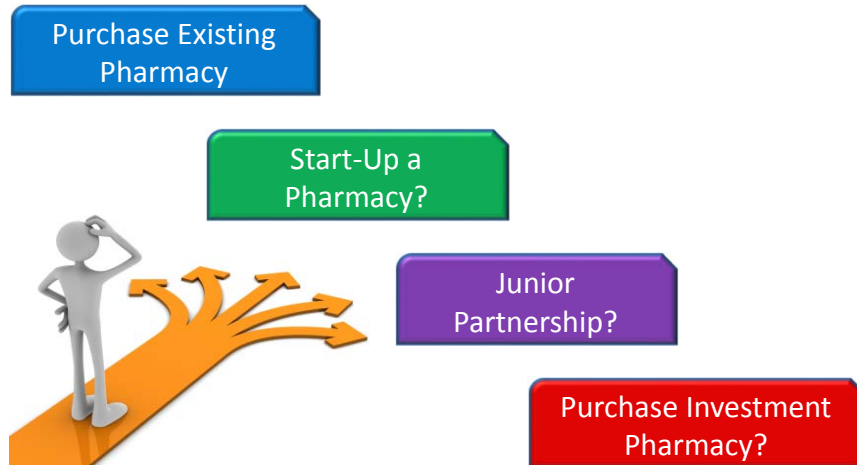


- Are you educated on:
  - The market value of your business
  - Decision criteria for lending approval
  - How financing is structured
- Be prepared to answer:
  - Do you want to carry a seller promissory note?
  - Do you want to continue working in this pharmacy?
  - Do you want to rent/sell your building? (if applicable)

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## What is the path to Ownership?



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## Buyer Planning



- Where are you willing to acquire?
- Target pharmacy requirements?
  - Size
  - Staffing
  - Niche markets and services
- Who is on your team?
  - Attorney, CPA, Wholesale Partner, Business Partner

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## Buying Process



- Identify the right pharmacy
- Understand the opportunity
  - Pharmacy Due Diligence
  - Valuation
  - Trends
- Negotiate in good faith
  - Term Sheet/LOI
  - Real Estate involved
  - Seller Carry, Bank, Friends and Family, Supplier, Combination thereof..

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## Financing



- Selecting a lender
- Credit score
- Character / experience
- Business plan / financial projections
- Cash down payment (un-borrowed)
- Working Capital
- Financing Structure (asset vs. stock)

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## What is the Pharmacy Worth?



1. What a **SELLER** is willing to sell it for
  2. What a **BUYER** is willing to pay for it
  3. What a **LENDER** is willing to invest in it
- \*\*\*The buyer's ability to generate future economic return

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## The Pharmacy Must...



- Enable the buyer to earn market compensation
- Allow for debt repayment on the Total Project Cost
- Lenders like to see a Debt Coverage ratio of 1.3 or higher
- Appraise....

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## Performing a Pharmacy Valuation...



- Financials
  - 2-3 years Federal Tax Returns
  - Interim P&L and B/S
  - *Normalize personal & non recurring*
- Pharmacy Profitability Reports
  - Gross Margin Summary Logs
  - 3<sup>rd</sup> Party Plans, % Medicaid
  - Product Mix

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## Pharmacy Valuation..



- 1) A multiple of cash flow (EBITDA) + Inventory
  - Typically 2.50 to 3.50 multiple for goodwill
- 2) A % of annual Total Revenue + Inventory
  - Typically 15% - 20% multiple for goodwill
- 3) A \$\$ multiple of annual Rx + Inventory
  - Typically \$10-20 multiple for goodwill
  - Chain method

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## Typical Purchase Structure



- Asset vs. Stock
  - Asset is most common
- 75-90% bank loan
  - SBA Lender (total project cost)
  - Wholesaler
  - Local Community Bank
- 10-25% equity requirement, combo of:
  - Buyer cash down payment
  - Seller promissory note
- Buyer will need working capital
  - Cash (Savings, 401K, Family)
  - Added to loan (total project cost)
  - Inventory



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## Pharmacy Valuation (Example)



- \$4,000,000 Total Revenue
  - 65,000 Annual Rx
  - Normalized EBITDA - \$315,000
    - \$145,000 (2015 Tax Return earnings)
    - \$60,000 (Depreciation & Amortization)
    - \$50,000 (Owner yearly bonus)
    - \$15,000 (Delivery vehicle = Mercedes)
    - \$45,000 (Spouse salary for “Bookkeeping”)
1.  $\$315,000 \times 3 = \$945,000 + \text{Inventory}$
  2.  $\$4,000,000 \times 20\% = \$800,000 + \text{Inventory}$
  3.  $60,000 \times \$15 \text{ script} = \$900,000 + \text{Inventory}$

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## Pharmacy Acquisition Loan (Example)



- Budget = \$1,400,000
  - \$945,000 = Goodwill
  - \$250,000 = Inventory
  - \$175,000 = Working Capital
  - \$30,000 = Closing Costs (if SBA financing)
- Funding Sources
  - \$140,000 = Buyer Down Payment
  - \$0 = Seller Note
  - \$1,260,000 = Bank Note

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## What does a valuable pharmacy look like?



### ATTRACTIVE

- > \$3MM Revenue
- Favorable profitability
- Appropriate expenses
- Staffing & labor
- Stable or growth trend
- Reasonable rent & lease
- Differentiation
- Location
- Competition

### NOT ATTRACTIVE

- < \$2.0 Million Revenue
- Underperformance
- Overstaffed / extended hours
- Declining rev / Rx
- Excessive rent
- Unfavorable lease terms
- “Premium” ask price
- Limited growth potential
- Poor/unclear/outdated financials

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## Do's and Don'ts of an Acquisition



### Do's

- Understand the business and its differentiators
- Understand the current cash flow opportunity
- Retain industry experts (CPA, lawyer, bank)
- **Be prepared for the unexpected**
- Prepare a budget and forecast future performance

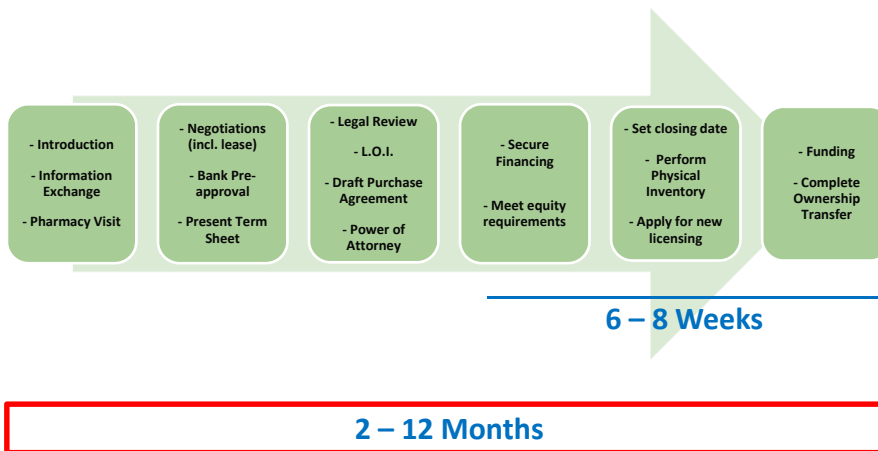
### Don'ts

- Limit yourself to what is there, instead look for potential
- **Don't pay for potential**
- Let emotions outweigh a business decision
- Assume negative trends are easily reversed or that positive trends will always continue
- Don't get into a bidding war

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## Transition Timeline



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## Selling to the Chains



- Pharmacist
- Local Pharmacy Owner
- Investment Buyer
- Chains may not include value of
  - Deliveries, Compounds, Care Homes, Etc.
  - Automation, fixtures, computers, etc.
  - Front store sales
  - DME/HME sales
  - Low demand Rx products
  - Real estate

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## Selling to the Chains



- Buyout may be quicker but residual demands can extend the completion:
  - Seller and/or staff employment tied to retention clause
  - Collecting final A/R
  - Selling OTC and other inventory
  - Liquidating FFE
  - Real estate (lease/sell)

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## Junior Partnerships



- Why create a Jr. Partnership when financing is readily available?
- Can be a solution for owner's looking to expand into multiple locations.
- Can be very risky and should have very specific details included in the agreement.
  - Always consult with an attorney
  - Is there a way to separate the partnership?

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## Start Up Pharmacy



- Location
  - Demographics
  - Competition
  - Traffic patterns and visibility
  - How many/what kind of scripts are filled in this area?
- Capital
  - Business Plan and Financial Projections
  - Access to adequate working capital for 12-18 months
  - How quickly can you break-even?
  - Willingness to work for less than market rates

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## Roles



- Seller
  - Demonstrate the pharmacy value
  - Participate in a seamless transition
  - Transparency of financials & data requests
- Buyer
  - Convince the seller you can continue their legacy
  - Patients & Employees
  - Financially qualified / pre-approved for lending
  - Exercise confidentiality

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## Professional Assistance with...



- Financial Score Carding and Fitness
- Create your Strategic Transition Plan
  - Buying or Selling
- Pharmacy Valuation
- Marketing your Pharmacy for Sale
- Locating Pharmacies to Buy
- Financing and Deal Structure
- Alliance with Legal Experts and Financial Planners
- Don't Pay Broker Fees

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Thank you  
**Q & A**