



Keys to Buying, Selling and Understanding Pharmacy Valuations

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Agenda

- 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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Goals for the Presentation

- When do I need to start planning for my pharmacy sale?
- How long does it take to buy a pharmacy?
- What are the ways to value my pharmacy?
- Is there a checklist to follow when buying / selling?
- Should I sell to a chain or another individual?
- What are my options for financing my transition?
- What are the common issues that arise during a transition?

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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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Pharmacy Transition Services

Pharmacy Transition Services

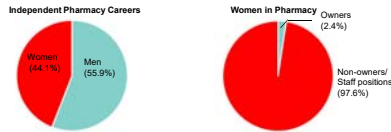


West	Midwest	South	East
California, Oregon, Washington, Idaho, Nevada, Arizona, Utah	Minnesota, Wisconsin, Illinois, Indiana, Michigan, Ohio, Pennsylvania	Texas, Louisiana, Arkansas, Missouri, Kentucky, Tennessee, Mississippi, Alabama, Georgia, Florida, South Carolina	New York, New Jersey, Delaware, Maryland, Virginia, North Carolina, South Carolina

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State of Women in Independent Pharmacy

- Women make up 56% of all pharmacists
- However, **men dominate careers in independent pharmacy (55.9%)**
 - Out of all women in the pharmacy industry, **only 2.4% were owners or partners of independent pharmacies (compared to 8.8% of all men)**



Source: REPORT OF THE 2014 NATIONAL PHARMACIST WORKFORCE SURVEY

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What is Women in Pharmacy?

Women in Pharmacy is dedicated to providing resources, education and mentorship to women around the country who are current or aspiring retail pharmacy owners.



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Video



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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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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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Sellers

- Proactive vs. Reactive
 - Why selling?
 - Importance of succession planning
- Team-based approach
 - Partner(s)
 - Attorney
 - CPA
 - Wholesaler
 - Financial Planner
 - Brokers
- Tax implications
- Employee and community impact

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Seller Planning

- Demonstrate profitability over several years
- Valuation of the business
- Lending approval criteria
- Structure of financing
- Willingness to carry paper
- Post-sale employment
- Rent or sell the real estate (if applicable)

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Path to Ownership



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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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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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Buyer Planning

- Who
 - Partner(s), wholesaler, bank, attorney, mentor
- What
 - Size, niche markets
- Where
- When
- Why
 - Entrepreneur, be your own boss, multi-store growth

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Buying Process

- Identify the **right** pharmacy
- Understand the opportunity
 - Due diligence
 - Valuation
 - Trends
- Negotiate in good faith
 - Term Sheet/LOI
 - Real Estate
 - 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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Community Pharmacy Buyers

- Existing Pharmacy Owners
- Staff Pharmacist
- Recent Graduates
- Chain Pharmacist
- The Chains (National/Regional)
- Investment Groups

Typically Demand > Supply

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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 expenses*
- Pharmacy Profitability Reports
 - Gross Margin Summary Logs
 - 3rd Party Plans, % Medicaid
 - Product Mix

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Pharmacy Valuation...

- 1) EBITDA multiple + Inventory
 - Typically 2.50 to 3.50 multiple for goodwill
- 2) Annual Revenue % + Inventory
 - Typically 15% - 20% multiple for goodwill
- 3) Annual Rx multiple + Inventory
 - Typically \$8-14 multiple for goodwill
 - Chain method

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Typical Purchase Structure

- Asset vs. Stock
 - Asset is most common
- 80-90% bank loan
 - SBA Lender
 - Local Community Bank
 - Wholesaler
- 10-20% equity requirement, combo of:
 - Buyer cash down payment
 - Seller promissory note
- Buyer will need working capital
 - Cash (Savings, 401K, Family)
 - Added to loan
 - Inventory dating from Wholesaler



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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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**Thank you
Q&A**