



—
The *voice* of the
community
pharmacist.

You Don't Have to Sell to a Chain!

Keeping Independent Pharmacies Independent

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Disclosure Statement

Chad Sanders, Dan Bernstein and Dave Johnson are employees of Cardinal Health. The conflict of interest has been mitigated by peer review of the slide content.



Pharmacist and Technician Learning Objectives

1. Outline best practices for buying or selling your pharmacy.
2. Review the ideal pharmacy transition timeline.
3. Explain pharmacy valuation methodologies.



Seller Planning



Do you have a succession plan established?

Family member, current staff pharmacist, or a partner in place to buy the pharmacy?

Are you educated on the market value of your business?

Can you demonstrate minimum two years of profitability?

Have you considered the tax implications?



Seller Planning (continued)

Do you have a team to assist with the transition?

Attorney, CPA, Business Partner(s), Wholesale Partner,
Financial Planner, Etc.

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)



What are Buyers Looking For?

Attractive

- > \$3.5MM+ Revenue
- Favorable profitability
- Lean operational expenses
- Staffing & labor in line
- Stability vs. Growth opportunities
- Reasonable rent & lease
- Differentiation
- Location
- Competition

Challenges

- < 175 Rx per day
- Unclear and/or outdated financials
- Financially underperforming
- Overstaffed / extended hours
- Declining revenue / Rx
- Excessive rent – unfavorable lease terms
- “Premium” ask price
- Limited growth potential
- Interest rates



Buyer Planning



Identify the [right](#) pharmacy

Assemble support team: Attorney, CPA, Lender, Wholesale Partner, Mentor, Financial Advisor

Target pharmacy requirements: Size, Staffing, Niche markets & services

Understand the opportunity: Pharmacy Due diligence, Valuation, Trends, Effect of DIR changes

Negotiate in good faith: Term Sheet/LOI, Real Estate involved, Seller Carry, Bank, Friends/Family, Supplier, Combination thereof



Buyer Planning (continued)

DO's of an Acquisition

Understand the business and its differentiators

Understand the current cash flow opportunity

Retain industry experts (CPA, lawyer, bank)

Ensure financing in place prior to offer / LOI

Prepare a budget and forecast future performance

Be prepared for the unexpected



Buyer Planning

DON'Ts of an Acquisition

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



The C's of Credit for Borrowers

Character

The integrity and personal credit history of the borrowers.

Capacity

Cash flow! Can the borrower pay their bills and service debt with the cash generated by the pharmacy?

Capital

How much capital is the borrower putting into the deal? Cash vs. Cash/Seller note. Does the borrower have capital reserves (cash and/or line of credit) to inject into the business as needed?

Collateral

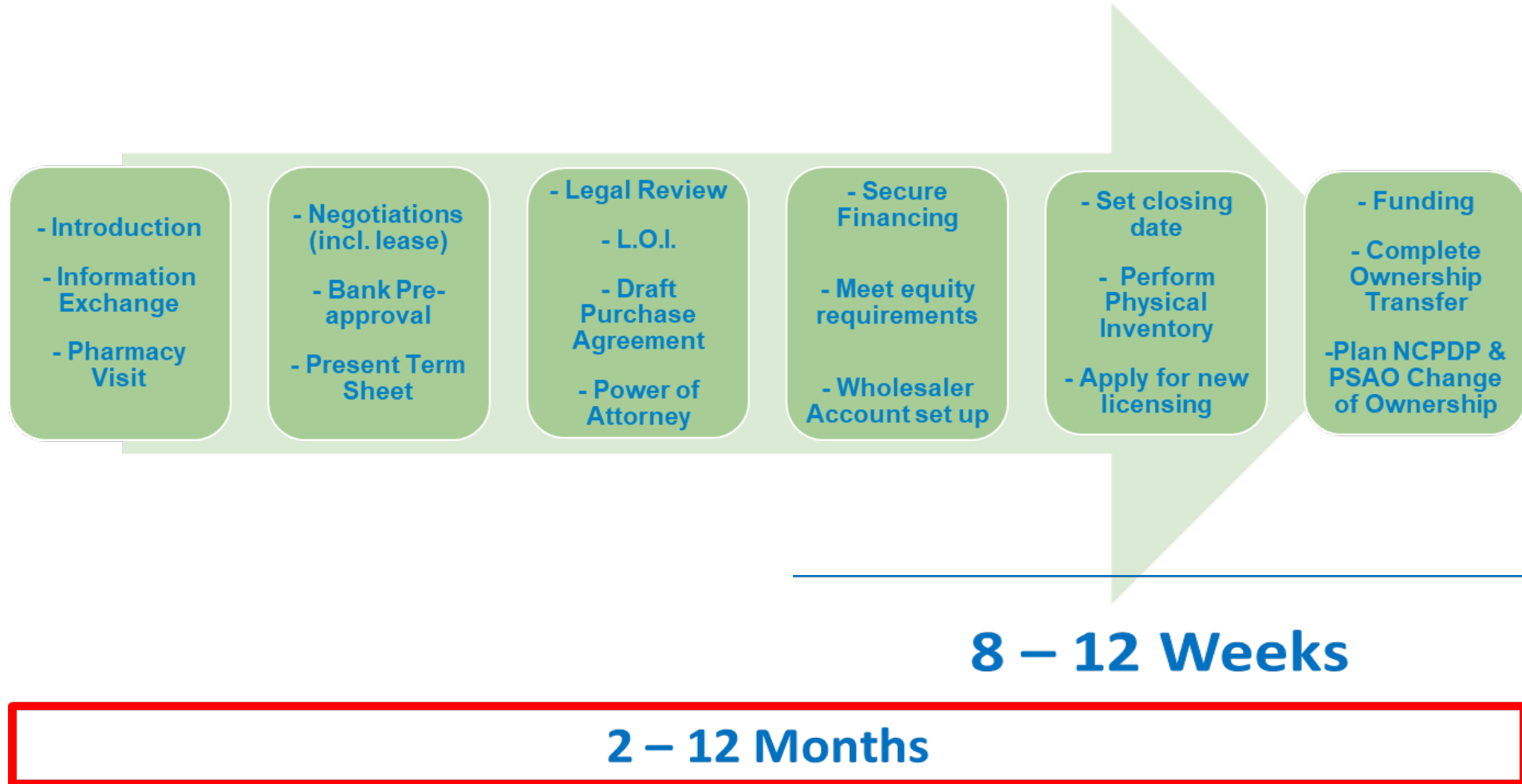
Will the bank be secured and to what extent?

Condition

State of the industry, areas of concentration, regional factors and how will the borrower deal with them?



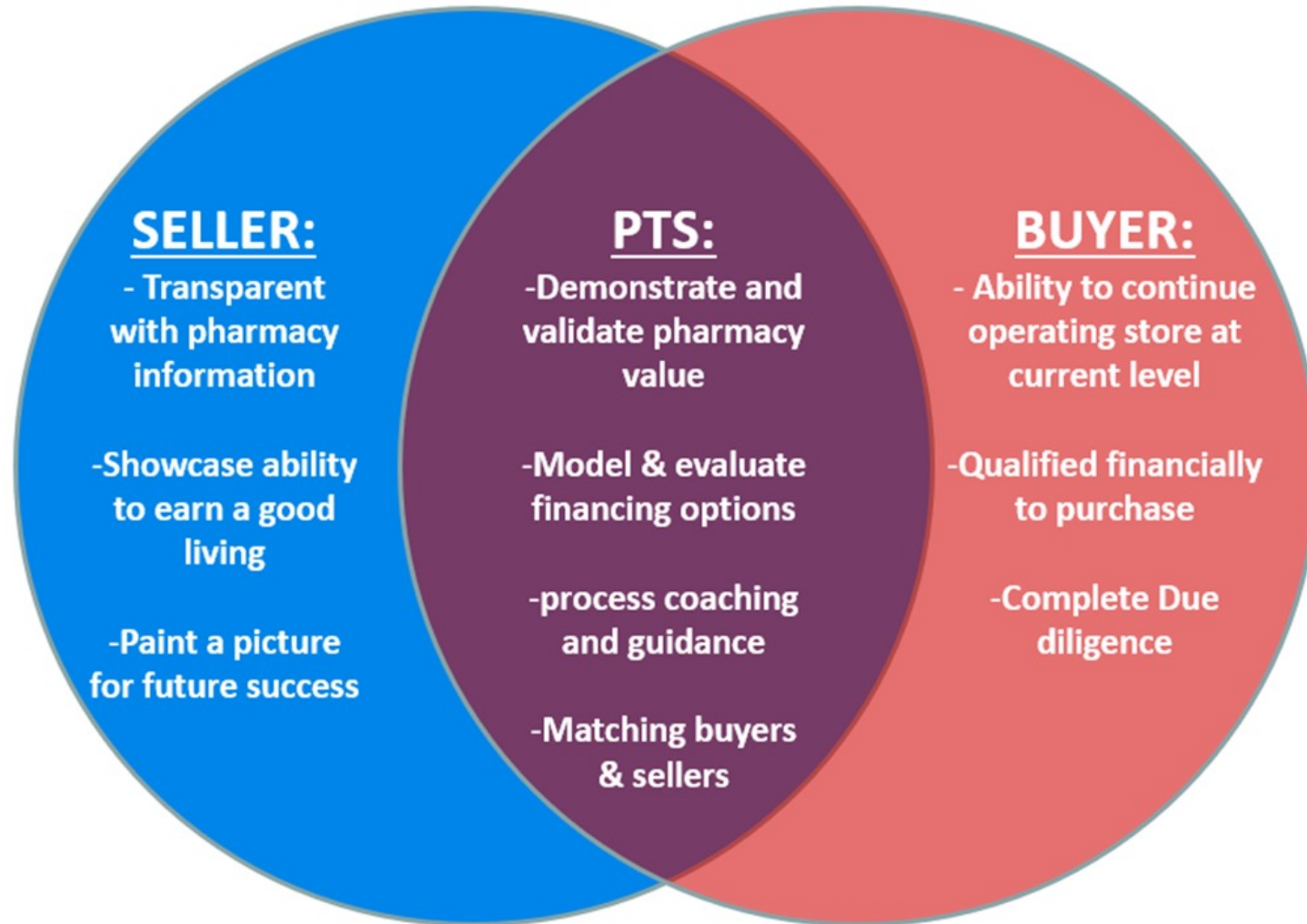
Transition Timeline; A guide to success



Frequent communication is key throughout the process



Responsibilities of Each Party





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

Sellers and Buyers need to view the deal from both sides.
Deals typically don't get completed if they are "one-sided".



Performing a Pharmacy Valuation

Financials

3 years Federal Tax Returns

Year-to-date P&L and B/S

Re-cast earnings / Normalize non-essential expenses

Pharmacy Reports

Prescription Logs - New / Refill and Brand vs. Generic

Gross Margin Summary Logs

3rd Party Plans, % Medicaid

Product Mix (Top 100 drugs)

Controls & cash %



What Are Pharmacies Selling For?

To determine pharmacy “Goodwill” we must analyze **key performance indicators**:

Revenue

Gross profit

Expenses

Trends

Size

EBITDA (Net Operating Income)

Three common valuation methods:

Multiple of cash flow (**EBITDA**)

Average \$3.5MM+ pharmacy in the 3 x (+/- range) EBITDA + Inventory

Percentage of annual revenues

18% - 22% Range

Fixed dollar amount times annual number of scripts filled + Inventory

Range as low as \$8/Rx to Mid-Teens



Chain Offers

In today's climate, the purchase agreement presented by chains may look good on the surface, but the net purchase price often contains clawbacks that dramatically reduce the price per script.

Will not buy real estate

Retention clause most often reduces ultimate selling price

Generally, will not buy delivered, compounded or compliance packaged prescriptions

Will reduce offer price if buying pharmacy inventory (or offer below cost on inventory)

May require owner to work at the chain pharmacy for a period of time

Legacy, employees & service to the community gone!



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