

DOCUMENTING YOUR BUSINESS ACTIVITY©

Establishing the value of a going business, regardless of its size and market position, always requires significant documentation on the part of the owner(s). This is true in all situations, large and small, public and privately held companies, whether you are seeking to value the business for internal purposes or are preparing to sell the business to someone else.

It is difficult, if not impossible, to place an accurate market value on a business and/or convince a prospective buyer of that value without strong documentation to back up the owner's representations. Buyers invariably are guided and counseled by accountants and attorneys, as well as others who may be involved in the acquisition process. These advisors are paid to be skeptical, ask all the "devil's advocate" questions that a buyer might not think of due to his or her enthusiasm for the deal. It is their role to take nothing on faith or by verbal representation, always to ask for the back up, the documents and the paperwork that will prove what a seller is representing to a prospective buyer.

In the case of small, privately held businesses, the documentation available is often not as solid as it should be. Far too often, the financial statements and tax returns are not totally representative of the business' profitability, since many owners are practicing aggressive, legal, tax avoidance, minimizing profits where and when possible, seeking advice from their accounting professionals as to how to limit tax liability at year-end without, of course, pushing the envelope beyond which it can be pushed, something that accounting professionals will always advise against, in my experience.

This situation holds true for independent pharmacy owners just as it does for many other small business owners. Accordingly, the challenge becomes one of providing prospective buyers with the kind of documentation required to show the best picture possible as regards gross margins, and expenses, that would be applicable to a new owner. From my perspective, these are the records that an owner should have available, in the most current form possible, for inspection and review by prospective buyers and their advisors:

- Three years' financial statements, accountant prepared P & Ls as well as Federal and State tax returns, including a balance sheet and all schedules. Many buyers also request state sales tax returns, which reflect gross receipts for a certain period.

- If it has been longer than ninety days since the close of your last full fiscal/calendar year of business, a current P & L will probably be requested. Many owners today are using some sort of internal accounting software (Quick Books, etc.) to help manage their businesses. These programs, if properly managed, can usually produce a current P & L, though not always with a balance sheet included.
- Bank statements, at least six months' worth of current ones, which will reflect receipts and disbursements made through your checking account. If you "park" money in any sort of "sweep" or money market account, copies of those statements also.
- Check stubs or remittance advices from major third party payers for a similar period. In today's world of 85%+ third party payments, these reports can document your third party prescription activity and receipts.
- Six to twelve months of prescription department computer printouts reflecting all Rx activity, prescriptions filled, new and refill, generic vs. brand, and sorted by third party payer. I find that with rare exceptions, all the systems in use today have these reports available to the owner. That said, I also find that some (perhaps many) owners are not aware of how to access them, need help in creating the reports required, which can usually be obtained from the help desk at your computer vendor's office. One important caveat here is to check how your system reports gross margins and how you have loaded in your cost of goods. In my experience I find that the vast majority of these reports DO NOT reflect an accurate gross margin for prescription department activity. In fact, many of them are so skewed, one way or another, that they create skepticism rather than confidence in the minds of the buyers. If your system is not providing you with an accurate GP for your Rx department, be prepared to fully explain why not and what the accurate number is.
- A copy of your current lease reflecting all terms, rents, additional charges and assignment restrictions, if any. If you own the building and are planning to lease it to a new owner, then a sheet of paper with your proposed lease terms will suffice.
- A copy of your most recent payroll listing showing all employees and their compensation, plus a brief job description or title (pharmacist, technician, clerk, bookkeeper, etc.).

Armed with these documents, and perhaps a professionally prepared appraisal or evaluation of your business, an owner can enter into any discussion regarding the value of their business feeling comfortable that they can back up their statements with facts, facts that can and will be accepted by prospective buyers and their advisors. Coming to the table with a fully documented information package in the beginning of these conversations puts you in a solid position to

negotiate effectively. If your only goal is to evaluate the business, perhaps for a shareholders' agreement of some kind, it will aid the person evaluating the business in preparing the most accurate documents to support that value.

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