



### **SELLER BEWARE©**

There are many factors which are driving the sale of independent community pharmacies and small, privately-held chains. At certain points in time in the last two decades of the 20<sup>th</sup> Century, it was mostly an activity that revolved around attrition, a sort of “survival of the fittest,” as the community of 40,000 independents was reduced to 20,000 at the start of the new millennium. The vast majority of the 20,000 stores that were sold were sold to chains, at very low valuations, as they aggressively bought prescription files to build their market share.

The attrition scenario has ended here in the first decade of the 21<sup>st</sup> Century. What has developed, and continues to expand, is an active and growing market for the sale of independent pharmacies, mostly to other independents, younger pharmacists who want to own their own businesses and to an active and rapidly growing group of multistore owners, independents who are building local and regional “chains,” though rarely in the true sense of what a chain is defined as, a group of stores having a common identity, a common look and common marketing policies.

These sales of independents are driven by the following factors:

- The age and demographic of the average independent owner, who is predominantly male and over 55 years of age. More than 60% of current independent owners fit into this category. Clearly, retirement time has come or is approaching for them.
- A resurgence of interest in academia in the opportunity that exists for young pharmacists in the world of independent pharmacy. For many years this did not exist. Now, numerous pharmacy schools are putting courses in entrepreneurship into their curricula and are generally much more focused on and supportive of their students exploring career opportunities in independent pharmacy.
- Active (and often aggressive) acquisition proposals being made by the large national chains, mass merchants and supermarket chains with pharmacies in them. Their acquisition teams spend their days walking into independent stores and offering to buy them out, files and inventory, at prices that may seem good, particularly to the uninformed owner who has not yet “tested the market.”
- The “support” programs that drug wholesalers have put in place to assist their customers in developing an exit strategy and then trying to “match them up” with other customers of the wholesaler who are still in an expansion mode.

When contemplating the sale of an independent pharmacy, there are a number of issues that owners must deal with, all of which can and will have an effect on the transaction in many ways. Included among these are:

- Valuation – Without having a reasonably accurate idea of the fair market value of a pharmacy, how can one attempt to sell it?
- Options – Without know all the options open to you, how can you truly determine if you have chosen the correct one? Is the best sale to an employee, a family member, a competitor, an arms length, first time buyer or a chain? Or is there some other option that you haven’t yet discovered or explored?
- Tax consequences – Without knowing all the implications of the possible tax consequences and just how much deal structure and your current business structure can and will affect the net proceeds of the sale to you, it is difficult to move forward in the proper manner.
- Financing - How can and should the deal be financed? What are the options in this regard and how do they work for (or against) you?

- Real Estate – Do you own or rent your store? If you sell, what are the financial ramifications on you, whether you are a tenant or the owner of the building? What are your options in this regard?
- Confidentiality – It is critical that your competitors, customers, employees and the local prescribers are not aware of your plans until the last possible minute. And when the time comes to inform anyone in the market that you are selling, you should remain in total control of that process to insure a successful sale and the transition of ownership in a mode and with timing that you control, not the purchaser.

This year, as in the past nine years, more than one thousand independent pharmacies will be sold, many to other owner operators, some to employees or family members, some to chains who will close them up. The chains have recently become much more aggressive in their acquisition activities than they have been in recent years. Their need to build market share and prescription volume in their stores is being driven by the Medicare Part D program and the pending changes in generic reimbursements under Medicaid. Both of these activities will have a negative effect on pharmacy department gross margins and, from a chain perspective, one of the most meaningful ways to offset this loss of margin is to increase Rx volume per store.

We strongly advise independent owners who are approached by chain store acquisition managers, in person or by mail, not to overreact or jump the gun in terms of providing information or strongly considering their initial offers to purchase without knowing better what your options are and what the value of your pharmacy may be. Do not be too quick to turn over prescription logs or financial records unless and until you (a) have a signed nondisclosure agreement from any prospective buyer and (b) have consulted with someone outside your pharmacy, accountant, attorney, consultant in the industry who is more knowledgeable than you are about independent pharmacy valuations and potential options for the sale of your business.

Our advice to independent owners who, for whatever reason, are currently contemplating the sale of their business is as follows:

- Discuss your options with trusted advisors in a confidential environment before doing anything.
- Ascertain the value of your pharmacy to others based on current marketplace conditions, in a professional manner, rather than trying to apply “rules-of-thumb” to determine market value.
- Do not engage in serious dialogue with anyone, independent acquirer, chain pharmacy acquisitions person or your wholesaler salesperson without first executing professionally prepared nondisclosure documents.
- Fully understand all the financial and tax ramifications of a proposed sale before you enter into any contract or purchase and sale agreement.

Finally, we always counsel prospective sellers who are engaged in the exit strategy planning process or the active marketing of their pharmacy to continue to operate the business as if you were going to own it forever. Do not stop trying to improve and grow the business in every respect. To do so in anticipation of selling will have a negative effect on the value of your business. Since the vast majority of independents only sell their pharmacies once in their lifetime, it behooves you to do everything you can to insure that you do not leave any of the value of your pharmacy on the table when you leave the closing.

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