
Preparing to Sell Your Business

A Guide for Ensuring the
Health of Your Business



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Introduction

According to the NCPA, 10,000 independent pharmacies will change hands over the next decade.¹ That's nearly half of all independents. And, you're likely one of them. You've also spent decades — if not your whole career — as a community pharmacist and want to see the legacy you've built continue when you've retired.

Whether you're ready to sell in the next 6 months or the next 6 years, you'll understand how planning is critical to helping you realize the full value of your pharmacy. Plus you'll get tips on assessing your pharmacy's worth, selecting advisors, finding a qualified buyer, and negotiating a great deal.

Why Make a Plan?

While you may have thought about selling your pharmacy and what it would mean to your personal and professional life, deciding when you're actually ready to sell can be challenging. So is finding the time to plan. You've likely heard of a colleague who suddenly sold his or her pharmacy because of unexpected circumstances. With no succession plan, you may miss opportunities, get waylaid by unexpected complexities, or fail to maximize the return on your investment.

Benefits of Planning Ahead

In order to realize the full value of your lifetime's work, it's important to plan your exit strategy well ahead of time. A good succession plan helps translate your goals into actionable steps you can begin to implement immediately even if you don't plan on leaving your business for years. The sooner you start to build the plan, the better you'll be able to ensure you and your customers are taken care of.



○ **Create a nest egg for your retirement,** making sure you fully appreciate the tax consequences of the sale of your business and have reserved enough liquid funds from the sale to cover any tax liability and other expenses.



○ **Prepare for life after ownership,** including deciding if and how you'd like to be involved in the pharmacy after you transfer ownership and determining if you need to obtain health insurance or other benefits for you and your family.



○ **Find the right buyer and structure the transfer** so that you can help maintain an independent pharmacy presence in your community, keep your loyal staff employed, provide your patients with ongoing personalized care, and help the new owner to succeed.

Timing of the Sale Is Critical

10 years before

- With the aid of your attorney and/or accountant, determine the corporate structure (e.g., LLC, S-Corp, C-Corp, partnership, sole proprietorship) to best manage and track your business performance.

5 years before

- Evaluate financial statements, ratios and benchmarks in order to maximize margins and the value of your store.
- Begin considering candidates to succeed you.

3 years before

- Understand the best valuation method(s) for your pharmacy.
- Create a plan for making capital improvements to enhance your store's attractiveness to potential buyers.
- Determine the ownership-transfer model that best fits your intended lifestyle post-sale, and begin implementing it if you have a designated successor.

1 year before

- Establish a team of expert advisors to kick activity into high gear.
- Gather complete financial statements and tax returns for the last 3 years.
- Obtain an appraisal and valuation to set a starting price for bids.
- Maximize your store's curb appeal.
- Identify potential buyers, if you haven't already, and conduct preliminary meetings.

Determine and Improve Your Pharmacy's Value

One of the most important steps involved in preparing for the selling process is determining the real value of your pharmacy. Even if valuation sounds like a tricky proposition, you can be prepared.

Know the Assessment Criteria



In addition to hard financial considerations — profitability, solvency, projected cash flow — an assessor will take a close look at a number of “softer” variables, including the physical appearance and location of your pharmacy, your business’s standing in the community, the age and composition of your customer base, etc. Knowing the variables that impact valuation helps you improve your pharmacy’s appeal.

Casting Your Pharmacy in Its Best Light

Many variables are entirely within your control. Consider the following to help set the stage to get a great deal.²

- **Curb Appeal.** Even small efforts, like new signage, new fixtures and paint, can make a sizable impact on the assessor’s appraisal of relatively subjective elements like “store condition.”
- **Capital Investments.** Most buyers want to take over without having to invest in changes or immediately renegotiate contracts, so check when your lease(s) expire and evaluate if you need to upgrade your technology and/or workflow.
- **Assets & Liabilities.** Determine if you have front end inventory that isn’t moving. Consider settling any legal issues and pay off debts, as these can cause potential buyers to look elsewhere. Also, consider assets that might not transfer with the sale.
- **Financials.** Since your financial statements will be scrutinized during the selling process, now is the time to ensure they’re complete and up-to-date to get a realistic view of your business. Also, look at your reporting methods (e.g., depreciation). You’ll likely need to start any changes in reporting methods at least three years prior to impact the historical statements you provide to buyers.

Assessment Benchmarks

- **Profitability.** Indicates financial success (e.g., net operating income)
- **Productivity.** Shows how well staff and front end are maximized (e.g., sales per employee or square foot)
- **Financial Position.** Measures efficient use of assets and control of liabilities (e.g., ROI)
- **Cash Flow.** Determines liquidity and ability to meet financial obligations (e.g., current ratio, inventory turns)



Special Consideration

An assessment is only a benchmark of approximate value. The pharmacy’s true worth can’t be determined until buyers bid for the business.

Common Valuation Methods

Understanding the various methods helps you interpret the valuation of your pharmacy. Here are some of the most commonly used models:

Percentage Volume Plus Inventory = (15% of Total Sales \$) + (\$ Inventory)

Net Profit = (Multiplier of 5) x (Adjusted EBITDA)

Net Income = (Multiplier of 1.5) x (Net Income)

Prescriptions Plus Inventory = (Average \$ / script) x (# Yearly Scripts) + (Inventory)

Itemization = (Assets) – (Liabilities) + (Goodwill)

Direct Assessment = (Tangible Assets) + (Intangible Assets)

Find a Qualified Buyer

Where to Start

While some owners may have a particular buyer in mind, most wonder where to start looking. Begin by asking what you want your store to continue to be — or to become.

- How much previous experience and success should the buyer have in owning and running a pharmacy?
- Is keeping the pharmacy independent important to you?
- How do you feel about your pharmacy becoming part of a regional chain?
- What about selling to a national chain?

Your answers will impact the qualifications you seek in a buyer and where your selling search begins. The more restrictions you have in terms of your “ideal buyer,” the longer the process will likely take.

Who to Ask

Look at your networks to discover potential buyers. Local, state or national pharmacy associations can be a good place to start for referrals, or can offer recommendations for intermediaries that can help market your business to a large audience of potential buyers. Schools of pharmacy, group purchasing organizations, and wholesalers can often provide leads.

Knowing If You’ve Found the Right Buyer

You want to make sure that you’ve found someone with the skills and commitment to continue your legacy, grow the business, and provide for the well-being of your employees and customers. Scrutinize the details of a potential buyer’s business plan to assess his or her ability to properly operate a pharmacy.

You can also directly ask the buyer questions — like why he wants to be an independent, how he’s currently contributing to his community, and what ways he thinks owning your store will change his and his family’s future? Additionally, if the buyer currently works at or owns an existing pharmacy, visit to observe how he interacts with patients and staff. You also may want to ask to interview key personnel, especially if they’ve been involved with other acquisitions.



Special Consideration

Selling your pharmacy to a family member can impact your ultimate valuation and other financial factors. For example, you may need to personally finance a large part of the deal, or consider receiving payment over a longer time. You may also want to involve your accountant and financial planner in examining your options given the complexity of capital gains, inheritance and gifting tax laws.



Junior Partnership

Some owners find that taking on a junior partner helps them to mentally and financially prepare for the transition. You can slow down gradually and hand over the business in a controlled way on a timeline with which you’re comfortable. And, financially this option may be more beneficial.

Younger partners can also bring new energy and ideas. Plus, you help give customers the time to establish relationships and build trust with your successor. And, you’ll often create a probationary period, specified in writing, which allows you to make sure you’re compatible before committing.

With this inside-out approach, a junior partner has the chance learn your pharmacy’s “secret sauce” and helps your legacy survive and thrive in your community after you’ve gone.

Negotiate a Great Deal

As an independent pharmacist, you're a savvy negotiator in the everyday aspects of managing your business — from contracts to your cost of goods. But, when it comes to negotiating the sale of your pharmacy, you're probably operating in new territory. Strong negotiation skills are a critical part of getting a good deal. Consider these tips to help you get a great deal.^{3,4,5}

Don't get personal. You've invested a great deal in your business, so staying unbiased can be difficult. Many negotiations fail because parties get sidetracked by personal issues or feelings. Anger, impatience, and fear lead to adversarial communication and kneejerk decisions that you may regret. Try to put your emotions aside.

Avoid preconceived notions. Presuming the other side knows your priorities, or that you understand theirs, can make negotiation competitive and prevent you from reaching the best agreement. Explicitly ask the other party to share which terms are more and less important to them. Openness, reciprocity and objectivity help to create options that lead to mutual gain.

Expect the best. Optimism often becomes a self-fulfilling prophecy. Confidently ask for what you want and go into the negotiation assuming you'll get it. Be assertive in a non-threatening way. For example, ask, "What if we did it this way?" Consider sitting at the same side of the negotiating table as the other party as a gesture of your desire to work together.

Don't be afraid to laugh. Humor can help you get what you want by breaking the tension. It makes people feel more comfortable. Humor also makes it easier to be tough without offending anyone. If you want to avoid answering a question, making a joke can deflect having to directly respond.

Silence can be a strength. When we're nervous we tend to talk a lot and miss important insights. Use quiet to your advantage. The buyer will often give you valuable information to fill the silence.

Make strategic concessions. Unskilled negotiators think concessions make them weak and blow the deal by only focusing on getting what they want. Instead, think collaboratively. Ask open-ended questions like, "How could we do this?" Look for ways to bring together differing interests. Compromise on issues that are low-cost to you, but that the other party feels have high benefit.



Change Management Plan

At the end of the negotiation process, prepare a 30-day change management plan to execute once you close the deal to help the transition go as smoothly as your negotiation. If you are going to be working in the pharmacy, consider getting an employment contract to clarify the hours worked, paid time off, time off without pay, hourly wage/retainer, vacation time, insurance, and so forth. Also, your current staff likely have had little clue about their status during the negotiation process. Think about the specifics of how you'll communicate the news so everyone hears it at the same time.

Words of Wisdom

"Start out with an ideal and end up with a deal."

— Karl Albrecht, 20th-century German entrepreneur

"The most important trip you may take in life is meeting people half way."

— Henry Boyle
18th-century politician

Assemble Your Transition Team

Too many independent pharmacists lose out on great selling opportunities because they're insistent on going it alone. Would you try to sell or buy a house without the help of a qualified, experienced real estate agent? You can underestimate how easy it is to lose objectivity and have your gut play too much of a role in the selling price. Think about involving experts to help:

- Determine the right time to sell your pharmacy
- Alert you to options and issues that you may have otherwise overlooked
- Find the best potential buyer
- Evaluate a prospective buyer's business plan with pro forma statements
- Provide impartial advice during negotiations and decide when to jump on an offer, when to push back, and when to walk away
- Determine your buyer's fiscal health and if you'll earn an acceptable return on investment
- Advise you on what can go wrong with the deal and structure it to protect you

While your current accountant and attorney may be excellent for the day-to-day running of your pharmacy, consider if they are the right partners given the complexity and nuances involved in selling a pharmacy. You may also want to hire a broker.

If you'd like to speak with your local McKesson pharmacy advisor about succession planning activities and explore your options for selling now or in the future, check out BetterPharmacyHealth.com or call us at 866.329.0113.

Conclusion

As a pharmacy owner, planning for the sale of your pharmacy is one of the most important things you can do — for your staff, your customers, and yourself. Use this guide as a blueprint that you can reference to help make the right decision at the right time (or help avoid making the wrong one). These tips can help you to get the maximum value for your lifetime investment when this big decision arises.

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- 1 National Community Pharmacy Association (NCPA). *2011 NCPA Digest*.
- 2 National Community Pharmacy Association (NCPA). *Selling a Pharmacy: A "How To" Guide*. Chapter 2, Page 8.
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