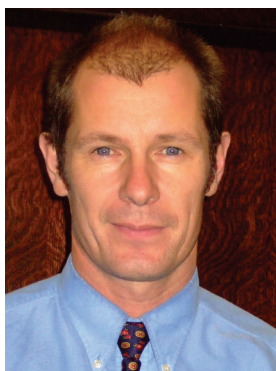


Business Focus

Preparing to sell your pharmacy

David Parker, with Nick Austen and Ed Gardiner-Hill, explains how to make sure you achieve the best price when selling your pharmacy



The decision to sell your business, often after many years of toil and trouble, is a difficult one to make. Nevertheless, once the decision has been made, it is important that the business is prepared well for sale. This preparation falls into two distinct categories: commercial and administrative/technical.

Commercial preparation

Maximise your profit — Many owners, once relieved of the burden of heavy loans, enjoy the luxury of taking the foot off the commercial pedal. Where, previously, an owner would have screwed down every cost to a minimum, and pushed every discount to a maximum, this hunger can diminish as retirement approaches. As the major driver of business value is your profits it is essential that you show what yours can really achieve. Take the time to review and if necessary re-negotiate the cost structure of the business. In particular, review opening hours that may be historic or habitual rather than profitable. Where it is possible to shed hours without significantly impacting on turnover, this will have a significant impact on a buyer's profit and loss projections and make the business generally more attractive.

Staffing profiles should be subjected to similar scrutiny. Where you may in your early years have worked with little employed assistance, reduced financial pressures and motivation may mean that you now surround yourself with a team of helpers. These do not flatter the P&L and are costs that will reduce the business value for a buyer. I would suggest that caution is exercised when recruiting or replacing staff, authorising overtime or pay rises in the year or two before sale.

On a similar note, many a P&L account is distorted by the practice of putting as many costs as possible through the account with the aim of reducing profits and thus tax burden. Putting to one side the legality of some of these costs, once again the result is a bottom-line that does not flatter the business. A well-advised buyer should be able to sort the wheat from the chaff, but a well ordered, simple and lean P&L will always set buyers off on a more confident footing.

Minimise buyer's risk — Once a buyer is confident he has understood your business, and its profitability, his next major concern will be whether he can deliver more of the same.

Where a business appears to be so reliant on the existing owner ("personality business") a buyer's view may be that the only way is down. This may well be a perceived risk rather than a real one, but nevertheless it is one for which your business will be discounted (I have seen discounts as high as 50 per cent negotiated on this basis). If your business is stable enough, then think about stepping back from the day-to-day operations well in advance of the sale. If the pharmacy is trading under your name, consider changing the name to something more generic a year or so before the sale.

Just as frightening to a buyer is the perfectly run (read "over-performing") business. You may well be proud of the fact that your business model is extremely complex yet runs like clockwork under your expert guidance, but this will do little to settle the nerves of a first time buyer contemplating a £1m loan or a multiple buyer planning to operate the business under an employed manager. Buyers prefer businesses they feel they can improve rather than those they feel they will destroy. Once again, where possible, attempt to simplify the business operation and to make it as independent of you as possible. Where you have nursing homes, delivery services or significant monitored dosage system provision, do what you can to make sure this business can be easily picked up by a buyer.

In summary: be aware that buyers want to hear that they are buying a low-risk, easy-to-run, business. Do not let your desire to blow your own trumpet destroy your goodwill.

Administrative/technical preparation

Property — If the pharmacy occupies a leasehold property, make sure that you have a reasonable amount of time left on the lease (preferably more than seven years). Remember that a buyer's funder will often want to make sure that the pharmacy will be in a stable location for some time. If you have a freehold property, you will need to decide whether you want to sell it with the pharmacy or retain it and lease the whole or part of it to the purchaser?

If you have any special arrangements with neighbours regarding parking or access, then try to have them documented by a solicitor

and agreed with the neighbour so that they will continue to benefit the buyer.

Have you undertaken an asbestos survey as the current law requires? A buyer (and his funding bank) may insist that a survey has been carried out (at your cost) to show that there are no likely asbestos problems.

Employees — Many purchasers will require each of the employees to have a signed contract and will be wary if any are paid cash in hand. The National Pharmacy Association has a standard employment contract which is commonly used. Are your locums really self-employed? Do you have a written agreement with them?

Accountant/tax adviser — You need to talk to your accountant and make sure that:

- the accounts for the pharmacy show a clear picture and do not contain any items which are not for the pharmacy business; the buyer and his accountant will be checking this and will expect you to warrant that the accounts are correct

- you understand what your tax liability is likely to be on sale and take any sensible steps to minimise it.

NHS returns and OTC sales — Make sure you have copies of all the FP34s for the past three years, figures for OTC sales and your form HN1.

Local doctors' surgeries and pharmacies — Keep a file with any information that you receive regarding changes to local doctors' surgeries and applications for new NHS pharmacy contracts or relocations, as a buyer will want information regarding these.

Stock — A buyer will normally pay £ for £ for your saleable stock according to a valuation by one of the usual trade valuers. In order to get an idea of what they are likely to pay, the buyer is likely to ask to see the last two or three year end stock-take certificates.

Long-term contracts — A buyer will want to see what long-term or major contracts you have and particularly any contracts linked to the purchase of stock or other items from particular suppliers/wholesalers and your arrangements in relation to computer hardware and software. Do you supply care homes? If so, are there written arrangements in place?

Funding — If you have any loans linked to your business you will need to look at them carefully and (at the right time) talk to your funder about the sale. For example, if you run your pharmacy through a company and have granted security to a bank then you should anticipate that you will need to get your bank's consent to the sale.

With a few simple steps and a good marketing campaign, you can be assured that your many years of hard work will achieve the maximum return.

David Parker is a specialist in pharmacy business sales (david@davidparkerconsulting.co.uk or 0789 423 4873). Vertex Law are specialist pharmacy lawyers (www.vertexlaw.co.uk; nick.austen@vertexlaw.co.uk or 0870 084 4040; egb@vertexlaw.co.uk or 01732 224000)