

## So you want to buy a Pharmacy!

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Young pharmacists often ask me what they need to do to buy a pharmacy.



One answer is to gather a deposit and get in line. The question then becomes which line to get in - brokers, wholesalers, succession plan or simply cold calling are all avenues, which could lead to an opportunity. Unfortunately though, being in line doesn't necessarily lead anywhere. Each line has more potential purchasers than the number of pharmacies on offer. What's more, they are filled with queue jumpers who get preference for a myriad of reasons.

But where there is a will there is always a way. The issue to resolve first is what type of pharmacy should you be looking for?

Different types of pharmacies (e.g. Medical Centre, Strip, Shopping Centre, Country, branded, independent, large, small, with/without aged care etc) often require different skill bases. Different staff mixes will also require different management styles. The key message here is that narrowing your focus will allow your efforts to become more targeted, increasing your chance of success.

Proving how difficult the pharmacy market really is, the Queensland office of brokers Pharmacy Solutions recently advised us that of 21 recent sales, only 40% of purchasers were first time buyers. Interestingly though, the age of most of the first time buyers was between 25 and 30. The value of the 21 pharmacies sold ranged from less than \$500,000 (24%), to in excess of \$1.5 million (24%) with approximately 50% between \$500,000 and \$1.5 million.

Once an opportunity does present, it is important to understand that your lifestyle can NOT improve over the 15 odd years it will take to repay the purchase debt unless sales and profitability improve. Pharmacies are expensive. Without growth, profit will only repay debt - i.e. there will be no additional cash over and above salary. While this is still a better proposition than having salary only, it often falls well short of first time buyers' dreams and expectations.

Growth opportunities may include refit, re-merchandise, increased marketing, staff training, changing the offer, re-branding etc. None of these actions however will overcome a poor location. Most will require further investment. Relocation of the pharmacy may be the biggest opportunity (and most costly), so the consideration of both current and future funding requirements is paramount.

By way of example let us consider a prospective purchase. The facts are as follows:

- You are a first time buyer;
- Looking to purchase a pharmacy for \$1,000,000;
- The security (cash or other) you would need for a bank to lend you the balance would be approximately \$300,000 (30%);
- In addition, you need cash for the transaction costs –
- Approximately \$50,000 including stamp duty



Therefore, if you want to buy a \$1m pharmacy you will need approximately \$350,000 of your own capital to start with, together with ideas and motivation towards achieving growth.

Saving for a deposit takes time. In recent years however, the strength of the Australian housing and share markets coupled with financiers' aggressive lending policies have allowed the under 30's to build wealth far more quickly than prior generations.

Should you be fortunate enough to find an opportunity but not have sufficient capital to complete the purchase, your options include:

- approaching a wholesaler to guarantee the shortfall
- seeking support from family/friends to guarantee shortfall
- finding a pharmacist to participate as an equity partner (passive or active) in the business

Many pharmacists seeking ownership however will fit the description of an eager young buyer without the necessary resources. This is where succession planning opportunities will accelerate the passage to ownership.

### **Succession Planning**

An alternative to purchasing a pharmacy outright, of which young pharmacists are becoming increasingly aware, is to become a partner in a pharmacy where the current owner can sell down over a number of years and gradually prepare for retirement.

The cost to acquire an interest is often more affordable as the initial purchase is limited to around a 25% interest. (although this may still be as much as \$1m in some cases). The key attraction though is the purchaser's personal contribution is often minimal, as the current owner's equity in the pharmacy is used to support the finance loan.

Other advantages include the ability to eventually own a pharmacy that may have otherwise been beyond the purchaser's reach and the ability to learn about management/leadership from the existing owner. Once a succession plan is completed you will eventually own 100% of the pharmacy (or whatever the pre-determined end point is). Note however that a succession plan does not remove the need to identify growth opportunities before considering purchase!

Message - if you are interested in succession opportunities then make this part of your employment decision when deciding where to work. Ask the prospective employer what your options and their future intentions are.

Two of the most commonly asked questions in relation to partnership opportunities are what percentage interest is best and how much is needed to fund that percentage?

Generally, an initial purchase of around 25% is recommended. Any less than this does not communicate a willingness of the existing owner to take on a partner in the true sense of the word. For the young pharmacist a 25% share provides enough return above salary to impart the sense of ownership/commitment/risk and to ensure that all partners are working to improve the pharmacy.

Without the above level of transfer, the incoming partner could be seen to be simply buying a pharmacy management position. If the introduction of a junior partner is part of a complete succession plan, the exit of the older pharmacist should ideally be completed over a period not exceeding five years.

So, in summary:

- Don't expect somebody else to find opportunities for you. It can take many years of hard work. Often finding the right pharmacy to work in and the right owner to mentor you will present the best chance of finding a path to ownership.
- Identify growth opportunities for the business
- Ensure sufficient funding
- Get to know referral sources so as to gain their confidence - e.g. brokers & wholesalers
- Be prepared to relocate to rural areas. Pharmacies are usually less expensive and subject to less competition in these locations.
- Don't commit to a purchase without professional advice and
- Don't commit to a partnership without future certainty being encapsulated in your initial agreement/contract.



Good luck!