



Looking back at 2008

by Tony Townsend

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The first three-quarters of 2008 were a difficult and worrying time for many independent community pharmacists. Others have seized opportunities in the marketplace to acquire nearby competitors, thereby protecting their part of the neighbourhood, and some have expanded their roles by offering new services (whether they feel adequately rewarded or not is another matter entirely). The previously rapid growth of most of the multiple chains has been replaced to some degree by an era of consolidation. Some of this has been down to company mergers; some of it has been due to corporate restrictions on investment through a need to cut costs. It is true to say that some have just played a 'wait and see' game, not fully committed to a total withdrawal from buying new pharmacies but neither have they been prepared to stand by while others acquire the good businesses that have become available.

From an owner's point of view, and particularly those nearing retirement, it must be music to the ears to hear that there is still competition for the better businesses from some multiples and even more so from those independents who are still committed to a life in community pharmacy. An unpalatable decline in profit margins, both gross and net, largely as a result of Category M adjustments (to say nothing of the inevitable increases in all other outgoings), saw many businesses reduce staff levels and abandon plans to refit or expand their premises. The number of independently owned pharmacies has probably halved over the last 15 or so years, so

to return to my earlier comment – why is there still such fierce competition to buy some businesses? It has more to do with economics than the mid-year credit crunch would lead you to believe. It is all about supply and demand. If you have a desirable commodity, in this case a pharmacy business, someone would like to take it from you. The choice for many pharmacists is simple: community pharmacy with its retail influence or hospital pharmacy. Of course, there are other fields but let's stick to the point and look again at life in the community. What choice is there? Continue with life as an employee or opt for a better life as an entrepreneur?

The future for buying or selling

Some agents would have you believe that goodwill prices have dropped by 20 per cent. I do not agree. What happened during the early part of 2008 was that too many agents won instructions from unsuspecting owners by inflating their asking prices and misleading their clients into believing that their businesses were worth far more than they were in reality. Add to this the more cautious approach adopted to funding due to a nervous loan sector and the result was a stalled market, albeit temporarily, until owners realised that today's market had found a new sustainable level. There was nothing intrinsically wrong with those businesses, and nothing wrong either with the quality or security of the applicants, nor the banks' ongoing love affair with the world of pharmacy. The banks still consider pharmacy to be one of the safest lending



sectors open to them. What was wrong was the quality of the advice given in far too many cases to pharmacy owners.

Employee or employer?

Young men and women can and do enjoy professional satisfaction and financial success from owning and operating their own businesses. They can become owner/pharmacists in their own business but they should keep a clear head when presented with any opportunity and not allow themselves to be driven emotionally by a 'roses round the door' attitude. What should buyers look for in a business? Perhaps one that has been allowed to stand still, where turnover and profit has not risen in line with the market, where you can reverse the trend, and one that needs a fresh, enthusiastic and perhaps *younger* owner! A business that is well located but has not really kept pace with a thriving, changing community nor served the neighbourhood in a way that it deserves or demands in the 21st century is the one that might suit your needs perfectly.

Reasonable prices? A reality check

Pharmacists who wish to sell their businesses over the next 12 months can still expect to receive a reasonable price. Admittedly, it might not, in their opinion, be at a price that was enjoyed by some who chose to sell in the peak days during 2005–06 but they might still be pleasantly surprised. Many clients are. While profit margins have clearly shrunk by around 3–4 per cent, recent sales this year show that the average independently owned business produced something like £1m in sales volume, probably higher in densely populated areas, and the average price

achieved was over £1.30 per pound of turnover. Stubbornly, we still value the goodwill of businesses by reference to a multiple of adjusted net profit. This multiple is itself only a number in a very wide range of numbers that reflects the size of a business and its location, profitability and desirability. We then check our calculation against several other factors that influence demand such as dispensing items and gross profits. All these things affect the decisions of various purchasers. Some want a large OTC side to the business; others don't. Some will pay more for a business if they can add nursing and residential homes to their existing delivery 'rounds'; others won't.

The final check

Whether buying or selling a pharmacy, the final 'check' when looking at a sensible price for a business is... a reality check. At what price did a comparable business sell in the recent past? The more evidence available to you from selling and valuing a wider range of businesses than anyone else, the more likely you are to receive a guide closest to the real selling price. A skilled negotiator might drive the eventual selling price even higher by introducing several buyers who are all keen to buy in a particular location, but that does not mean the original guide price was wrong. It does mean that the agent knows who is active and who is prepared to outbid other competitors. An average price for businesses at any level tells you clearly that you will pay more, sometimes much more, for bigger businesses. Conversely, and especially for those buyers entering the market for the first time, there are businesses available from time to time at really advantageous prices. You just need to know where to look for them.

Using professional advisers

Whether buying or selling, don't be afraid to ask advice or pay a few extra pounds to engage the right solicitor who is totally familiar with buying or selling, either through acquiring the shares of the limited company that owns the business or by purchasing the assets that make up the pharmacy business. They are very different transactions and a few pounds spent on the right solicitor can mean many pounds saved by avoiding the pitfalls. Similarly, the right accountant will assist you and save you money in the long-run in the preparation of a proper business plan, your personal cashflow and profit projections, and the various taxation implications that can apply. Let's not forget also the 'big five' banks, who all accept valuation reports from professional advisers to support their customers' applications for finance. Twenty-first century technology and great support teams mean that professional advisers can help buyers and sellers enter into a fair and equitable transaction, one which will withstand the test of time and provide each party with a deal that they expected: for the seller, a fair price and a genuine buyer who will see it through to completion; for the buyer, a positive result that will provide them with a reasonable return on their invested capital, the ability to service the loan and the ability to earn profits at least commensurate with their previous salary but that now reflect the added managerial responsibilities and risks involved in owning a business. Many buyers eventually come back to us, either to buy again or to sell up only to buy a bigger business, maybe even to go on to create their own group. You might be surprised by how many former clients have actually done this in the past. ■