

### **“WHAT IS MY PHARMACY WORTH?”**

The above question is not only asked in the context of a potential sale, but many pharmacist-owners ask the question because they want to compare the current value of their pharmacy to an original purchase price or require a value for overall estate purposes.

Pharmacist owners may ask this question for the following reasons:

- Assessing whether to sell or not
- Assessing life insurance requirements
- Preparing for an estate freeze
- Preparing for succession (usually to an employee or a partner – sometimes a son/daughter of owner)
- Preparing a will for overall estate valuation
- Assessing conformance as a Qualified Small Business Corporation

The above is not an exhaustive list, but consider the first word of every point; “Assessing” and “Preparing”. These words imply the formulation of an overall plan. In this case, your financial or estate plan.

There are three words that are used synonymously regarding the pharmacy operation: worth; value; and, price. One must be careful with the context of these words.

“Worth” is appropriately used when referring to the current pharmacist owner. “What is this pharmacy worth to you?” The pharmacist owner must review the salaries and other remuneration currently received by family members to determine the income that will be foregone when the pharmacy is sold. The pharmacist owner then must calculate in conjunction with his/her accountant whether the income forgone will be offset by the income earned from the sale; or if the income is not offset, will the income be sufficient that you do not have to decrease your lifestyle? Some pharmacists sell too soon and later realize they still have to work to attain their financial retirement goals.

“Value” is a term that is a theoretical calculation based on the pharmacy operation’s financial performance but taking into account store characteristics/features.

The financial performance statistics would include income before taxes, annual cash flow and the number of scrips per year. The income would be “normalized” (e.g. add back management bonus). A factor would be applied to the adjusted income before taxes and/or annual cash flow in the determination of goodwill. The “goodwill per scrip” would be assessed for reasonableness.

The above “factor” would be affected by:

- Location of store
- Clinic vs store front
- % government scrips
- PPO’s
- Nursing homes
- Compounding
- Profitability of front store
- History
- Multiple buyers

This is not an exhaustive list but would affect the calculation of “value”.

Even after we have assessed the “worth” of the operation and calculated the theoretical “value”, it is very difficult to gauge the “price” an arms length party will pay. On any given day, you might get an offer from a broker, a chain, a mini-chain or an independent that is significantly different from the previously calculated “worth” or “price”. The prospective purchaser will consider what the operation is “worth” to them and offer accordingly. As different products or services are worth more or less to different people, a pharmacy operation will be “worth” differing amounts to different owners. Competition for a location will also have an affect on price.

“What is my pharmacy worth?”

We at Cunningham LLP can help you determine the “value” of your operation.