

Time to sell?

Anne Hutchings takes a look at what has happened to the value of pharmacy businesses over the last three years

The past three years have seen a period of uncertainty for community pharmacists. This started with the OFT report in January 2003, which recommended lifting control of entry, and was followed by the introduction of the new contract in England and Wales. I know from all the phone calls I receive that these uncertainties have made many independent pharmacists consider whether it is time to sell their business. The first question most pharmacists ask me is what is my business worth?

It is hardly surprising that after the OFT report pharmacy goodwill values dropped. Sales, which had previously been agreed, were in some cases aborted or valuations renegotiated. From my experience in the

market at that time I observed a reduction of around 10 per cent in goodwill values. For example, a pharmacy which was valued at £700,000 before the OFT report was worth around £630,000 following the announcement. We then had a period during the remainder of 2003 when values stabilised. Clarification of the OFT recommendations helped pharmacy values recover and during 2004 and 2005 values have steadily increased.

The table opposite gives an indication of how goodwill values have increased during the past two years. It is only a rough guide and should not be used in place of a formal valuation. The main factors affecting pharmacy values are:

- Location in relation to doctors and

competitors. The nearer the doctors the better.

- NHS/OTC mix.
- Nursing homes – turnover from these tends to be discounted in the valuation process.
- Business accounts – turnover, gross margin, overheads.
- Opening hours – long hours equate to more overheads.
- Drug addicts – although these can help achieve a higher gross margin, many pharmacists are not keen.
- Premises rent and rates – if these costs are particularly high, as seen for example in some parts of London, it can have a negative effect on the value.
- Development in the area – new health centre, doctors moving etc.

Pharmacyfinance

Pharmacy goodwill values fell by 10 per cent after the OFT report

The good news for anyone thinking of selling is that it is a sellers' market; there is currently insufficient supply to meet demand. I have had feedback from pharmacy purchasers that they regard the new contract positively. I have a database of around 1,000 serious purchasers ranging from locums and small groups to multiples. When a pharmacy comes on the market it is not unusual to generate several offers, resulting in an excellent price for the vendor. The major groups have been keen purchasers in the past year. I recently dealt with a sale to a multiple of a pharmacy with a turnover of under £500,000, whereas in the past the turnover guide would have been £700,000 plus.

There are also an abundance of locums looking for their first pharmacy.

Is it a good time to sell? Nobody can predict with any certainty what the future holds. Deciding whether to sell is a personal decision but from a financial perspective the market is buoyant; high values are being achieved and sales can be agreed quickly.

Tips for pharmacy sellers

Use a pharmacy agent. If you receive a letter from someone expressing an interest in your business or your locum makes an offer, don't be tempted to try and sell your business privately. The reason for this is that if you are dealing with just one person your negotiating power will be weak, and you are unlikely to obtain the best price.

I recently handled a sale for a pharmacist who had received an offer and was on the point of accepting before speaking to me. The offer was substantial but I felt we could achieve an even higher price. I spoke to 10 people who I knew would be in the market for this particular pharmacy and I achieved 20 per cent more than the original offer. The pharmacy was sold quickly and confidentially.

Maintaining confidentiality

One of the main concerns of pharmacists selling their business is confidentiality, both in respect of their business information

and their staff not finding out. Before instructing an agent, discuss these issues and make sure you are satisfied that these aspects of the sale will be handled to your satisfaction. For example:

- Do prospective purchasers sign confidentiality agreements before receiving your information?
 - Does the agent vet prospective purchasers?
 - Will you have the opportunity to approve who your details are given to?
 - At what stage is your financial information such as business accounts etc provided to a prospective purchaser?
 - Do you want the pharmacy to be advertised? Many pharmacies are sold discreetly without any form of advertising.
- Finally, don't accept the first offer. In the current market it should be possible to generate offers from several purchasers. ☺

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Pharmacy turnover	Value of goodwill as percentage of turnover	
	Jan 2004	Jan 2006
Up to £250,000	10-20	20-30
£250,000-£500,000	30-40	40-55
£500,000-£750,000	50-60	60-75
£750,000-£1,000,000	70-80	75-85
£1,000,000 plus	80 plus	85-135