

# Cash flow, cash flow and cash flow!

It is still possible to buy or sell a pharmacy business with confidence. But you will need to consider the issues highlighted in this article before entering the transaction

**H**aving recently reviewed with our pharmacy clients the current fundamental problems or issues that they are facing today, we received one response that seemed to sum up the concerns of many and this was, “cash flow, cash flow, and cash flow!” An unsurprising response given the current climate.

With the ongoing funding negotiations seeming ever more protracted and unlikely to result in a positive outcome (particularly given the financial pressure on the government to cut spending) and with one of the main high street pharmacy lenders recently revealing the fairly negative results of a survey into market confidence, can anyone buy or sell a pharmacy with confidence?

There are plenty of opportunities in the marketplace and we are guiding a number of our clients through the potential pitfalls to ensure that they can buy or sell their pharmacy businesses with confidence. In this article, I have set out some of the increasingly common issues that we are facing in our pharmacy transactions.

## Category M clawbacks

In the latter half of 2012 we saw Category M clawbacks jump quite significantly (designed to clawback the excess purchase profit previously made by contractors), as well as seeing a reduction in practice payments. While there was some minor respite in April (with practice payments increasing slightly), this has been a cause of struggle for some pharmacies, particularly for independents and those who are tied into specific suppliers and who do not have the opportunity to scour the market for the best Category M deals. However, as the clawback is an adjustment based on historical figures, where does a buyer of a pharmacy stand when hit by a clawback based on the dispensing of the former owner of the business?

Whilst a seller may want to walk away free from any liabilities of the pharmacy, it would not necessarily be reasonable for the seller to reap the rewards of previous dispensing but pass on any clawback in relation to that dispensing to the new owner. A reimbursement may therefore

be necessary from the outgoing pharmacist or even an adjustment to the purchase price.

## New GPhC standards

We are currently in a state of a transition with regards to the new GPhC standards, which extend to governance, service delivery, premises, equipment, facilities and staff. The standards do not come into force until October this year, at the earliest, but should be a consideration for anybody looking to buy, or sell, a pharmacy in the near future.

If you purchase a pharmacy and find out that the pharmacy does not meet the new standards, where do you stand? If you are planning to sell a pharmacy, is it worth ensuring your pharmacy is fully compliant with the new standards before advertising it for sale?

The pharmacy owner or superintendent pharmacist is responsible for meeting these new standards, which could be another expense in an already financially uncertain environment. It is likely that any well-run pharmacy will not require significant investment to meet the new standards. However, the impending enforcement of these standard serves as a timely reminder to buyers to ensure they are aware of whether their prospective target is compliant. Therefore, what can a prudent buyer do?

A buyer would carry out tailored due diligence on a prospective target to prevent any such surprises. Where a pharmacy is non-compliant a buyer should then at least have a better understanding of the resultant financial implications. This will provide an opportunity for a buyer to renegotiate and, if necessary, make a price adjustment or perhaps even walk away from a bad deal if the liability is material, before being committed to buy.

As well as taking preventative measures, we normally seek to implement a corresponding ‘cure’ by way of certain protections and assurances from the outgoing seller to give a buyer piece of mind in his new venture.

## Surplus cash in the business?

Some pharmacy owners (the fortunate ones) have surplus cash at the bank when selling, and will want the most cost and tax efficient



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method of extracting that cash on sale. A buyer will want to avoid just buying the money in the company, essentially requiring the buyer to find extra money up front and putting extra strain on resources where they may already be seeking assistance from the banks. When a buyer pays for the cash in a company, this can be a more tax efficient way for a seller to extract the cash from the company, as they may profit from tax benefits such as entrepreneurs' relief. Where the cash is substantial this could cause problems for a purchaser.

A pre-completion dividend can be a sensible way for a seller to extract cash and is generally preferred by a buyer so as to avoid having to purchase the cash in the company. However, as the benefit to the buyer here is likely to be less tax efficient for the seller it is a fine balancing act. Issues like this highlight the importance of pre-sale planning.

### Multiple sites

We are currently seeing a lot of consolidation in the market, with single site pharmacy owners being taken over by multiples. Having a number of pharmacies can obviously increase your buying power with suppliers, and with the current financial climate it is not surprising that many independents are finding things increasingly difficult.

However, anyone with a chain of pharmacies to sell will need to consider the structure of their company before sale. This is something that is often dictated by the market. It may become necessary to sell to more than one buyer, which might require restructuring the assets of the business to enable the sale of separate pharmacies to take place, and can often be tax driven. We know it is important to manage the structure and timing carefully, as one sale can often be dependent on another. Once again, pre-sale planning could be essential in these circumstances. These are just some of the issues that pharmacists are currently facing when trying to buy or sell a pharmacy. [+](#)

#### Further information

The specialist pharmacy team at Ansons, who have dealt with over 40 pharmacy transactions in the last 12 months alone, can provide pragmatic and commercial advice to enable both buyers and sellers to make the right decisions.