

Purchasing An Established Pharmacy Case Study

Valuation of a Community Pharmacy

You have an opportunity to enter into a junior partnership to purchase Medical Arts Pharmacy. The most recent financial statements are attached. Your task is to determine an equitable selling/purchase price (range) to begin negotiations with the current owner. Assume you arrive at a price within your range (assume middle). Devise a proposal for a six-year buyout through a junior partnership.

Assumptions and Other Data:

1. You have performed a financial analysis and the pharmacy is found to be average.
2. The pharmacy filled 46,500 prescriptions per year.
3. The pharmacy owner owns the building and will rent to you for a rate comparable to the national average (\$75,000) (+NP \$55,000).
4. The owner's salary is \$25,000 above the "normal" NCPA Digest average of \$95,000. (+NP \$25,000).
5. Normalized net profit =

\$10,000
+55,000
<u>+25,000</u>
\$90,000

**Medical Arts Pharmacy
Anytown, USA
Balance Sheet, December 31**

ASSETS

Current Assets	
Cash	\$ 60,000
Accounts Receivable	90,000
Inventory	<u>200,000</u>
Total current assets	\$350,000

FIXED ASSETS

Fixtures, equipment, leasehold improvements (net after reserve for depreciation)	\$ 60,000
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OTHER ASSETS

Prepaid expenses, deposits, etc.	\$ 10,000
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TOTAL ASSETS \$420,000

LIABILITIES

Current Liabilities	
Accounts payable	\$ 75,000
Notes payable (within 1 year)	10,000
Accrued expenses	<u>5,000</u>

TOTAL CURRENT AND ACCRUED LIABILITIES \$ 90,000

LONG-TERM LIABILITIES \$ 30,000
Notes payable

TOTAL LIABILITIES \$120,000

NET WORTH \$280,000

TOTAL LIABILITIES AND NET WORTH \$400,000

Medical Arts Pharmacy
Anytown, USA
Income and expense statement for year ended December 31,

Sales		
Prescription		\$1,500,000
Other		<u>450,000</u>
Total		\$1,950,000
Cost of goods sold		<u>1,450,000</u>
Gross margin		\$ 500,000

EXPENSES

X Proprietor's or manager's salary		\$ 120,000
X Employee=s wages		150,000
X Rent		80,000
X Utilities		20,000
X Accounting, legal & other professional fees		8,000
X Taxes (except on buildings, income and profit) and licenses		27,000
X Insurance (except on buildings)		18,000
X Interest paid		12,000
X Computer		5,000
X Miscellaneous		<u>50,000</u>

TOTAL EXPENSE		<u>\$ 490,000</u>
NET PROFIT (before taxes)		\$ 10,000
Add proprietor=s withdrawals		\$ 120,000
Total income of self-employed proprietor (before taxes on income and profits)		\$ 130,000

***1/3 are credit/third party**

Income to Owner from Net Profit and Purchase Payments

	End of 1 st Year	End of 2 nd Year	End of 3 rd Year	End of 4 th Year	End of 5 th Year	End of 6 th Year	Total
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1. Value of Pharmacy

2. Ownership share to
junior partner

3. Payment from junior
partner*

4. Net profit of pharmacy**

5. Owner's share of
pharmacy***

6. Owner's share of profit***

Total

Income from Bonus and Profits and Projected Payments of Junior Partner

Year of transfer agreement	Income from net profit	Income from annual bonus	Net profit and annual bonus of jr. partner	End of year payment to current owner
1				
2				
3				
4				
5				
6				