



## Buying A Pharmacy: A Checklist for Col- lecting Info You Need

Identifying a pharmacy worth your investment can be a challenge. Here are some questions and ideas for what information you need to collect to help you—and your lenders—evaluate and assess a particular pharmacy. We've been on both sides of this equation—as pharmacists buying a pharmacy and as lenders guiding pharmacy buyers through this process. So whether you've already found an existing pharmacy for sale—or are still shopping—here are some of the things you'll want to learn and information to collect in order to assess the potential purchase.

## Why is the pharmacy for sale?



**Why is the pharmacy for sale? What is the real reason and does it speak to the viability of the pharmacy?**

- A legitimate or “positive” answer: owner has been successful, reached a certain age and is retiring or joining the full-time faculty of a university; pharmacy is part of an estate sale; etc.
- Is it a “non answer” or one that makes you concerned: changing industries; moving and don’t want to manage from a distance; etc.

Regardless of the answer you receive, always dig at a little deeper:

- If successful, why not install a good manager and reap the benefits while retired or enjoying the academic scene on a campus?
- Why changing industries—is it related to poor business results?
- If moving, is it related to finding better business opportunity (the pharmacy is doing poorly—or worse, under investigation)? If it’s because of family reasons and the pharmacy is successful, why not install a good manager to continue to reap financial benefits?

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## Is the current owner wanting to stay involved?



If change is for a positive reason, is the current owner wanting to stay involved?

- If the current owner is interested in assisting with the transition—and is well-respected by staff, customers, partners and community—this can be a good thing. It can also be problematic if there have been issues.

Does the location have the appropriate pharmacy licensure?

- Have any licenses, permits, registrations or certificates to operate ever been revoked, suspended or investigated for the location or for this owner?

- Is there any potential or ongoing litigation, auditing or dispute with a payer, provider or agency?

- Are there any dissatisfied independent or agency customers who could or have registered any complaints internally or with a government or regulatory agency?

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# What is the current value of the pharmacy's business—and has it changed?



## What is the current value of the pharmacy's business—and has it changed?

The numbers can tell you everything, if you get the details. You'll want to see the most recent—and each of the past three to 5 years' numbers. Specifically:

- Annual gross sales
- Net operating income (including property rent, detail of salaries, etc.)
- Number of scripts filled annually and annual value per script
- Inventory value
- Owner's salary (if owner has been paying themselves)
- Other \$ and/or items that are current expenses not applied to you (add back in)
- Charge account liability (if offered at pharmacy)—the average outstanding customer balance for each month

You'll want to take those numbers and evaluate year-over-year changes and pattern of growth (or lack thereof) across time.

If for some reason the numbers aren't readily available—and/or the owner acquired somewhat recently and only has a couple of years' worth—then you are seeing additional red flags.

## What is the breakdown of current product or specialty service sales?

- What percentage of the sales are over-the-counter products, compounded merchandise, commercially available prescriptions, prescriptions, narcotics and durable medical equipment (DME)?

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- Does the pharmacy work with long-term care (LTC) facilities?
- What percentage of sales are recurring revenue?
- What percentage of sales are Medicare funded?
- Is there delivery and if yes, what percentage of sales does that entail? Is there a fee? What is cost to business for the service?

**What type of employee structure is being used to operate the business?**

- How many full-time, part-time, contracted, etc.?
- What do the existing benefits packages look like and cost per headcount?
- What do the employees think of current business and/or owner? Try to interview employees directly without the seller present.

**Which physical assets are part of the deal and/or negotiable?**

- If acquiring the lease and/or the ownership of the physical building, is it sound or does it need an overhaul? How extensively?
- If leasing, what are the terms specifically in regards to the building and surrounding area (parking lot) maintenance/upgrades?
  - If part of a larger shopping environment, who handles landscaping and snow/ice removal? Associated costs?
- Does it currently operate with an updated point-of-sale (POS) system and will the sale include that system? Associated licensing and maintenance costs?

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- Which pharmacy script management system is in use? Has the workflow for attaching accurate patient sales/notes over time been consistently used well? Are records accurate and auditable?
- If the inventory is included, what is the general breakdown of the on-hand merchandise mix?
- What fixtures and lighting are included?

**Are there any current vendor restraint clauses in place? You'll want to:**

- Be able to review and evaluate current vendor/wholesale supply agreements as part of due diligence.
- Evaluate any obvious needs for implementing a vendor restraint clause on current providers, if you are to purchase.

**Are there any goods and services tax (GST) issues or implications still impacting the business?**

- What percentage of the on-hand inventory is from prior to the June 2018 ruling?
- What has been the impact on the pharmacy's life saving drugs? Consider this impact when reviewing year-over-year financials.

Your due diligence should be as in-depth as possible. Problems hide in the vague and "gray zones" of information.

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## What is the potential for the business?



Even if the current owner has not been successful, it could be their management and choices, not necessarily the pharmacy itself. You'll need to collect data and analyze for:

- Location and market opportunity:
  - Is the current location and market demographics growing or diminishing sales opportunities?
  - What does the competitive landscape look like overall?
  - Who are the competitors in the geographical area and for the profitable/targeted demographic audiences?
  - What changes may have happened recently—new chain pharmacies, big box stores with pharmacies or other independents that have moved into the area?

- Existing partner/purchasing agreements:

- What types of agreements exist?
- Are these relationships and agreements beneficial or detrimental to short- or long-term success?
- Is it better to keep these agreements, renegotiate or terminate and find new ones, if you buy?

- Merchandising potential:

- Are there immediate and low-cost changes you could make to immediately realize more upselling opportunities—or will it cost much more to make an impact on revenue?
- What would it take to improve the “sidewalk view” for products in highlighting/presenting to help bring in new sales opportunities?





Does the pharmacy have any existing relationships (written or verbal) with health care referral sources and do those relationships transfer to a new owner? Specifically examine and document relationship details with:

- Physicians
- Hospitals
- Therapists
- Home health agencies
- Urgent or surgical care centers
- Other types not listed above

Overall, you are looking at both what has been and what opportunities there may be for you to do it better.

These details will help you evaluate the pharmacy that has caught your eye—and help your lender provide value as you acquire your new business.

*Have questions?*

*Call us at (501) 672-5040 or send us an email at:*

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*Our team has decades of pharmacy industry expertise to provide you with the insight and information you need to achieve your goals—and fund your dream.*





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