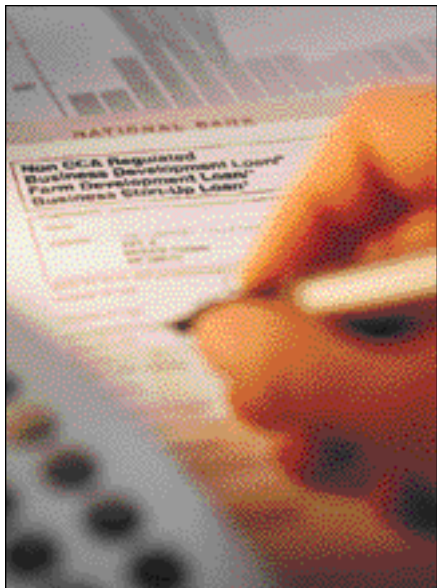


# Buying Or Selling A Pharmacy Tests Rarely Used Negotiating Skills



The financial issues that surround a pharmacy's sale and purchase, while seemingly complex, can be distilled into two core premises:

- Sellers want to be sure that they will receive all the transaction's proceeds.
- Buyers, particularly first timers, rarely have enough money to pay in cash.

The primary borrowing sources for most business acquisitions are financial institutions, relatives or friends, and the seller. Traditional bank financing, where the borrower posts some sort of collateral for a loan, then receives the funding required to buy a business, is not the small business acquisition norm. Since the collateral available in a retail pharmacy acquisition rarely, if ever, equals the required loan's value, most commercial banks and other lending institutions are not comfortable lending a significant portion of the purchase price. This is particularly true in pharmacy acquisitions, where so much of the value is in the goodwill attached to the pharmacy's reputation and the customer relationships that reside in the prescription files.

## SBA Loans: Terms, Conditions

The most notable exception to this rule is a government-guaranteed Small Business

Administration (SBA) loan. In this scenario, an authorized SBA lender provides between 85 percent to 90 percent of the purchase price. There are several terms and conditions for both the buyer and the seller that must be met, including:

- A "reasonable" equity contribution by the buyer of between 10 percent and 20 percent of the deal's total. If there is real estate involved in the transaction, where the buyer is also purchasing a building from the seller, this can lower the equity contribution required.
- A professional evaluation of the business to support the value and price being paid.
- Complete financial documentation from both the buyer and the seller, and completing a reasonably complex set of forms.
- Additional collateral posting other than the business' assets, often a lien on the buyer's home, assuming he or she owns one.
- The purchaser's personal guarantee.

## Pros And Cons Of Personal Loans

The second financing method (borrowing money from family or friends), is often fraught with complications. Personal relationships can cloud business judgment and create difficult situations. With that said, there are young pharmacists who have the good fortune to have family or friends with capital available who will support them in acquiring a business. My counsel here is to treat these loans as formally as possible, clearly documenting the borrower's responsibilities to pay back the money, under specific terms and within a specific time frame. In this way, misunderstandings about the payback term, interest rates payable, and default provisions can be avoided.

## Holding The Note

The third method, probably the most widely used since this activity began, is for the business seller to hold the note from the buyer. In other words, to "take

back a purchase money mortgage." In this scenario, not dissimilar to bank borrowing, the buyer places a down payment of as much as the parties agree is required (but rarely less than the value of the pharmacy's inventory value). The seller holds a note (a promise to pay) for some agreed upon period of time at an agreed upon interest rate and payment intervals, which the buyer proceeds to start paying once the transaction is closed.

The benefits of this type of borrowing for the buyer are the lack of paperwork and professional fees that are required for a bank loan (though the sellers usually require documentation of the buyer's personal financial situation and a formal credit check). If the parties are in agreement on all points, the loan is a done deal without the need for government guarantees, bank credit officers' approvals, and other requirements that can impede or kill a transaction.

From the seller's perspective, these notes/loans pay interest at market rates, providing a reasonable return on investment for them and regular monthly payments. This produces a steady income, and often provides some tax benefits by avoiding a lump sum payment.

## Do Your Homework

There are many ramifications to the various financing methods for a transaction, all of which should be explored by both buyers and sellers prior to negotiating and closing a deal. It is important to seek the advice of qualified professionals who are familiar with these types of transactions—attorneys, accountants, financial counselors, and others who can explore the various financing methods and help guide both buyers and sellers in the proper direction. □

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