



Successful Exit Strategies for Ownership Transfer – A Practitioner Panel

Presented by:

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3:45 p.m. – 5:15 p.m., Monday, October 9, 2006
Las Vegas, Nevada

Evaluation # 06-143



This program is approved by NCPA for 0.15 CEUs (1.5 contact hours) of continuing education credit. NCPA is approved by the Accreditation Council for Pharmacy Education as a provider of continuing pharmacy education.

Educational Objectives

Presentation Title: Successful Exit Strategies for Ownership Transfer – A Practitioner Panel

Name of Presenters: Kris Zepeda, Cheri Garvin, John Kollhoff

Objectives:

1. List three different options for selling a community pharmacy.
2. Discuss the pros and cons of differing sales options.
3. Review the exit strategy timeline to allow a practitioner to keep their independent pharmacy legacy alive in the community.



Successful Exit Strategies For Ownership Transfer A Practitioner Panel Discussion

Kristopher J Zepeda
October 9, 2006

My Story



- Grew up in Seagraves, Texas
 - Population ~2,000
 - Graduated 1995
- Texas Tech University Undergraduate
 - 1999 Began working at Nelson Pharmacy Brownfield, Texas
- TTUHSC School of Pharmacy
 - Graduated 2004

Becoming an Independent



- Different means to ownership
 - Borrow money and buy shares
 - Open a new store
 - Other?
- Nelson Pharmacy
 - Enjoyed my time during undergrad
 - Owners mentored me and invested time
 - Made a difference in the community
 - Reached out to many rural areas (i.e. Seagraves)

Becoming an Independent



- Accepted to Pharmacy School 2000
 - Talked to Owners about returning during off time to work
 - Returned during freshman year when possible during breaks to work
- First year completed
 - Returned to work
 - Talked to majority partner about possibilities of coming to work after graduation

Becoming an Independent



- Realized we were in an ideal situation
 - Both partners needed a successor
 - Retirement
 - Continuity of pharmacy service to community
 - I needed a place to work
 - Enjoyed the time in the community and work setting
 - Realized presence of both a strong pharmacy and its potential

Becoming an Independent



- Our Deal
 - Nelson Pharmacy to provide books and tuition for last 3 years of school
 - In return, I would work for 3 years after graduation or repay pharmacy
- *All done on our word... No contract*

Ownership Transition



- After Graduation (2004)
 - Graduated on Sunday, began work on Monday
 - Worked from May until December and received 10% of company in January of 2005
 - 10% was distributed from treasury stock
 - Three partners: 74%, 16%, 10%

Ownership Transition



- Pros
 - Current owners allowed means to retire
 - Pharmacy would continue to serve community and surrounding areas
 - Provided means for future owner to attend school
 - High incentive to return to independent setting
 - Allowed for mentoring to learn how to “run” the store

Ownership Transition



- Cons
 - No contract
 - Partnership may not work out (getting along)
 - Requires implicit trust on both sides regarding taking care of the store
 - Keeping the store modern
 - Keeping the store open
 - Others...

Partner's Perspective



- Needed to recruit pharmacist
 - Pharmacy in a rural area
 - Acquire someone who could handle business aspect of independent pharmacy
- Both partners remained very active after transition
 - Very helpful

Partner's Perspective



- By staying active
 - Educational
 - Pharmacy
 - Financial
 - Intangibles
 - Everyone still wanted to talk to the other guys
 - They allowed the community to gain a trust in me as a pharmacist

Other Issues



- Staff
 - Had worked at pharmacy for 5 years as a technician or intern
 - Most employees inherited had been my peers
 - Some employees were significantly older
 - Worked to overcome these issues
 - Held staff meeting after graduation and explained the situation (most knew of our plans)
 - Helped and hindered that previous owners were still in place

Finances



- Investment required
 - Tuition and books (~\$10,000 annually)
 - Personal
 - None monetarily
 - Commitment to return
- Attained 10% of company 7 months after graduation
- 3 years of work will be done in May
 - Option to leave if desired*

Present Situation



- December of 2005 majority partner retired
- Two remaining partners
- Corporation purchased 74% from retiree and placed it into treasury stock
- Owners now have 71% and 39%
- Investing in a future partner

Changes Made



- Since acquisition
 - Began specialty compounding
 - Rotation site for TTUHSC School of Pharmacy (increased exposure)
 - Opened Tele-pharmacy
- Communities response
 - Pleased?

Advice For Future Owners



- Decide in which type of setting you wish to practice
- Spend time in pharmacy you are considering
- Devote time to financial management knowledge
- Consider what the store is now and its ability to become better
- Think of your role there in 5, 10, 30 years
- Evaluate future partners
- Get involved in associations

Advice For Future Sellers



- Actively Recruit
- Become a preceptor
- Vie for possibility as rotation site for interns
- Prepare store for transition
 - Can store run on its own
- Consider qualities wanted in new partner
 - Knowledge (RX, financial, etc.)

Plans For The Future



- Currently investing in future partner
- Due to graduate in 2009
- Will receive the same situation (10%)
- Current partner to retire in 2013
- Two partners with 79% and 21%
- Invest in new partner?
- What is the ideal situation?

Timeline



- Attain possible partner as soon as possible
- Train and mentor for 4 years of pharmacy school, earlier if possible
- Remain to continue to teach partner until adequate (1 & ½ years?)
- Structure buyout as not to bankrupt business and allow for smooth exit and entrance

Questions

