

PHARMACY VALUATIONS

The valuation of a pharmacy business is an essential part of the process when buying or selling a pharmacy, or when seeking to obtain finance.

Whilst each pharmacy has its own individual qualities, generally the valuation process is similar. The most common approach is to multiply the adjusted annual profit of the pharmacy by a risk adjusted rate of return on the investment in the pharmacy. This is known as the capitalisation rate (cap rate).

The lower the cap rate the higher the value of the pharmacy – for example, a cap rate of 20% means you multiply the adjusted profit by 5. A cap rate of 18% means the profit is multiplied 5.55 times. In effect the rate reflects the quality and risk associated with the business, and for pharmacies this rate is generally between 18% and 22%.

The cap rate and therefore the value of the pharmacy, is influenced by a number of subjective factors associated with the pharmacy business, including:

- Profitability of the pharmacy and future potential for growth and improvement.
- Demographics – who your customers are and how often they shop in your pharmacy. What are the age and socio economic characteristics of the surrounding population? Are people moving to the area, or is the population shrinking?
- Size of the Pharmacy.
- Location of the pharmacy – whether city or regional, stand alone, in a shopping centre, attached to a medical centre, etc.
- Mix between dispensary sales and front of shop.
- Proximity to doctors, nursing homes, hostels.
- Membership of a buying group or banner group, other agencies.
- Opening hours and ease of access, including parking.
- Competition – this includes not just competing pharmacies in the area, but also other retailers selling items that are not specific to pharmacies, such as supermarkets and discount warehouses.
- Equipment used, including POS systems, dispensing systems etc
- Lease of premises – the longer the length of the remaining term of the lease the better as it provides greater certainty for the continuation of the business from the current premises.
- Fit out of the premises – age and quality of the fit out is an important factor, as the need to provide for funding to renovate the interior will have an impact on the value.

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