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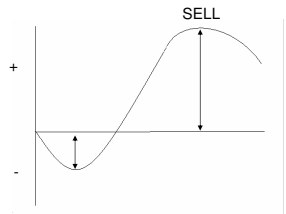

Building a Pharmacy for Sale

Presented by Riz Akhtar
Monday 12th October 2009




Agenda – Workshop’s Objectives **RA Accountants_{LLP}**

Why set up to sell?
To Maximise R.O.I.

Objectives **RA Accountants_{LLP}**

- Why do you want to sell?
- Why do people buy?
- Transferable value
- Drivers towards a business sale
- Minimising people risk
- Pre-sale due diligence
- Disposal options
- Steps towards a sale
- Process of sale



Why do you want to sell.....

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- Maximise return on investment (ROI)
- Personal circumstances
- Investor/Trader
- Technology / Compliance



Why do people want to buy?

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- Capital Growth/Investment
- Financial strengths/Low interest rates
- Positive income stream
- Independence



Transferable Value

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- Age of business / position in life cycle
- Quality of information
- Profit sustainability
- Size of business
- Owners involvement
- Quality of key staff



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Drivers towards a business sale

- K.P.I Targets (Key performance indicators)
- Professional excellence
- Financial performance
- Marketing expertise
- Client base
- Quality of employees/Good managers



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Drivers towards a business sale

Rate your business


Area	Now	Target	Maximise Value (100%)
Sales Mix			100%
Staff Training			100%
Cost Base			100%
Customer Type/Loyalty			100%
Services –MUR			100%



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Minimising people risks.....

- People, the destroyers of all great deals....
- Link rewards with business growth
- WHY NOT
- Link rewards with business disposal
- Tax efficient schemes such as EMI scheme
- HR issues can jeopardise a good deal



Pharmacies – Share Incentives



- Enterprise Management Incentive (“EMI”) share options are the most popular type of tax-advantaged share scheme. Employee retention is a key reason for adopting EMI, along with staff motivation and engendering a feeling of ownership.
- Companies might set up a an employee share scheme to
 - Motivate employees to become more productive
 - Align employees’ interests with those of shareholders
 - Recruit or retain key employees
 - Compensate for lower salaries and relieve pressure on cashflow
 - Remunerate employees in a tax efficient way
 - Increase loyalty and reduce staff turnover



Enterprise Management Incentives

- Aimed at small, independent, high-growth companies
- No prior HMRC-approval required, but option grants must be notified to HMRC within 92 days
- Share options, but with commercial flexibility as to the exercise price and when it can be exercised (but must be, if at all, within 10 years and within 1 year after death)



Enterprise Management Incentives - Limits

- EMI company/group must have gross assets of < £30m
– sum of gross assets of each group company
- Overall limit of £3m market value (at grant) of shares under all EMI options
- Individual limit of (now) £120K market value (at grant) of shares under EMI to any eligible employee



Enterprise Management Incentives

- Relief from IT/NICs at exercise of the option on growth in market value from grant to exercise or, if earlier, the occasion of a "disqualifying event" (unless option exercised within 40 days thereafter)
- If a "disqualifying event" (eg takeover or leaving), relief for accrued gain not lost and no loss of relief if option exercised within 40 days
- Purpose test: must be for "commercial reasons not avoidance of tax"



Why grant an option – could the shares not simply be issued?

- If employee leaves then, unless he is allowed to keep it/exercise it, it merely lapses
- Shareholder dilution occurs only at time of exercise
- No concern over minority shareholding interests



Which companies qualify

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- Company must be:-
 - independent (not a 51% subsidiary nor under the "control" of another company, or another company and any connected person)
 - have gross assets of less than £30m
 - have fewer than 250 full time employees
 - all its subsidiaries must be 51% subsidiaries and no other person should have control
 - any "property managing subsidiary" must be 90% owned



Eligible employees

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- Must be employee of the EMI company or a qualifying subsidiary
- Be committed to 25 hours p.w. or 75% of working time
- Not have (or be deemed to have) a "material interest"
 - 30 per cent
 - applied at grant, not exercise
 - interests of "associates" count, but sibling is not an associate



Types of Private Company Share Option

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- "Exit only"
 - exercisable only upon a sale or change of control
 - if employee leaves for any reason, option either lapses or he may retain whole or part but exercise only if Exit occurs within, say, 5 years
- "Vesting schedule"
 - right to exercise accrues over time
- "Performance-linked"
 - option lapses insofar as performance targets not met



Pre-Sale Due Dilligence

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- Quality of business
- Quality of profits
- Transferability
- Risk



Disposal Options

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- Cash Sale
- Earn Out



Steps towards a sale

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- Courtship/Trust
 - Valuation and negotiation
 - Planning for exit
- Cash Sale?
→ Earn Out?
(Based on future profits)



Process of sale

- Pre-sale Due Diligence
- Professionals e.g. Agents/Solicitors/Accountants
- Negotiation
- Heads of Business Agreement
- Due Diligence
- Exchange of contracts
- Completion



In summary

- Be certain as to what you are valuing
- Be clear in understanding difference between value and price
- Importance of transferability
- BE REALISTIC
- Mitigate taxes



Disclaimer

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Building a Pharmacy for Sale

Good Luck

Please come and visit us at stand D41

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