

BUYING A PHARMACY? THOROUGH DD IS ALWAYS THE KEY!

If you are looking to buy or sell a pharmacy there are the usual key issues you need to consider prior to commencing negotiations. Whether it is a sale or purchase, the process involved can be demanding and pressurised, hence understanding the target business early in the process is essential. This article focuses on the main areas of due diligence that should be dealt with as part of a purchase of a pharmacy.

As with any transaction, in the early stages of the negotiations it will be decided whether the transaction will be a purchase of assets or shares. The due diligence process will differ depending on the method of purchase. As part of a share sale, the due diligence exercise is likely to be extensive to ensure that the buyer knows as much information as possible regarding the potential liabilities to ensure it is still a viable purchase for the buyer. Whereas in an asset purchase, the due diligence process can be more specific to the assets which are the subject of the transaction.

The due diligence exercise of the buyer in both an asset or share sale will include financial, legal and commercial enquiries. As part of the commercial due diligence it would be prudent for a buyer to make enquiries of NHS England. These enquiries will allow the buyer to firstly establish that the seller is the named owner of the pharmacy on the Pharmaceutical List and secondly, to establish if any new pharmacies, doctors' practices or nursing homes are opening, closing or relocating in the vicinity of the pharmacy, all of which could substantially effect the pharmacy's income potential. The buyer may also want to contact any nursing homes with which the pharmacy has dispensing arrangements to ensure that these will continue following completion of the transaction. An in depth review of the FP34's should also be carried out to ensure a full understanding of the NHS dispensing payments which will demonstrate the business potential.

An example of the necessity for an in depth due diligence exercise was illustrated when we advised recently on the purchase of a pharmacy by way of share purchase. The financial due diligence exercise revealed that an investment shown in the accounts was incorrectly valued. This gave rise to a substantial potential liability in relation to tax. As this issue was identified we were able to negotiate a specific indemnity from the vendor if the liability crystallised to protect our client.

The due diligence process is fundamental in any transaction and the purchase of a pharmacy is no exception. It will allow the buyer to identify the business potential with a review of the historic trends. It is always pertinent to get professional advice early in the process to ensure that you have identified all potential issues so that they can be dealt with before you become too immersed in the transaction. If you would like to discuss the above, please contact Ruth Murday on 01384 216840 or rmurday@hawkinshatton.co.uk