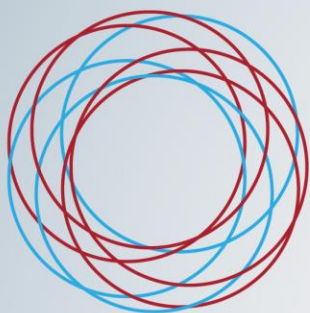




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Succession Strategies for Pharmacy Owners

May 2015

Presented by: Mike Jaczko



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ABOUT MIKE JACZKO

- Pharmacist
- Partner and Portfolio Manager with K J Harrison & Partners Inc.
- 32 years mergers and acquisitions in Canadian retail pharmacy industry
- 19 years experience in Canadian wealth management industry
- Trusted advisor to pharmacy owners
- Advisor on broader issues of wealth management



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DISCLOSURE

- The presenter of this learning activity declares that he has no conflicts of interest to disclose with respect to the facilitation of this program.



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LEARNING OBJECTIVES

1. Recognize the key considerations for preparing a pharmacy business for market
2. Be better prepared for planning purposes
3. Ensure that you are prepared to attain a better outcome at retirement



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THE CANADIAN RETAIL PHARMACY MARKET

- \$5 billion total enterprise value (debt and equity)
- Debt as a percentage of EV continues to rise
- Private market with opaque metrics
- Rising tide of foreign trained pharmacy owners
- Loblaw/SDM primary focus in market making
- Boomer trend – year 3 of a 15 year cycle
- Estimate six per cent turnover rate up from a four per cent baseline
- Represents \$300 million annual turnover (conservative estimate)



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MARKET IMPLICATIONS

- Tsunami waves mounting
- Challenges for all stakeholders
- Past skills may not insure success in the future
- Particular issue for programs lacking critical mass
- Necessitates pro-activity to mitigate defection rates
- Boomer trend – year 3 of a 15 year cycle



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A PHARMACY OWNERS GREATEST FEARS

- I've been a builder all these years—what do I do next?
- Is my business properly structured to minimize taxes?
- Selling my business equates to loss of identity
- How do I protect the equity I've worked for all my life?
- Do I have enough money to retire?
- I don't want to face my own mortality
- Who is my successor?



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PITFALLS OF PHARMACY OWNERS

1. Implementing your transition too late
2. Retaining advisors who don't know pharmacy
3. Allowing overzealous advisors to drive your agenda
4. Failing to engage experienced and credible experts to prepare, negotiate and transact on your behalf
5. Allowing emotion to interfere with pragmatic decision-making.
6. Not planning early and not planning at all!



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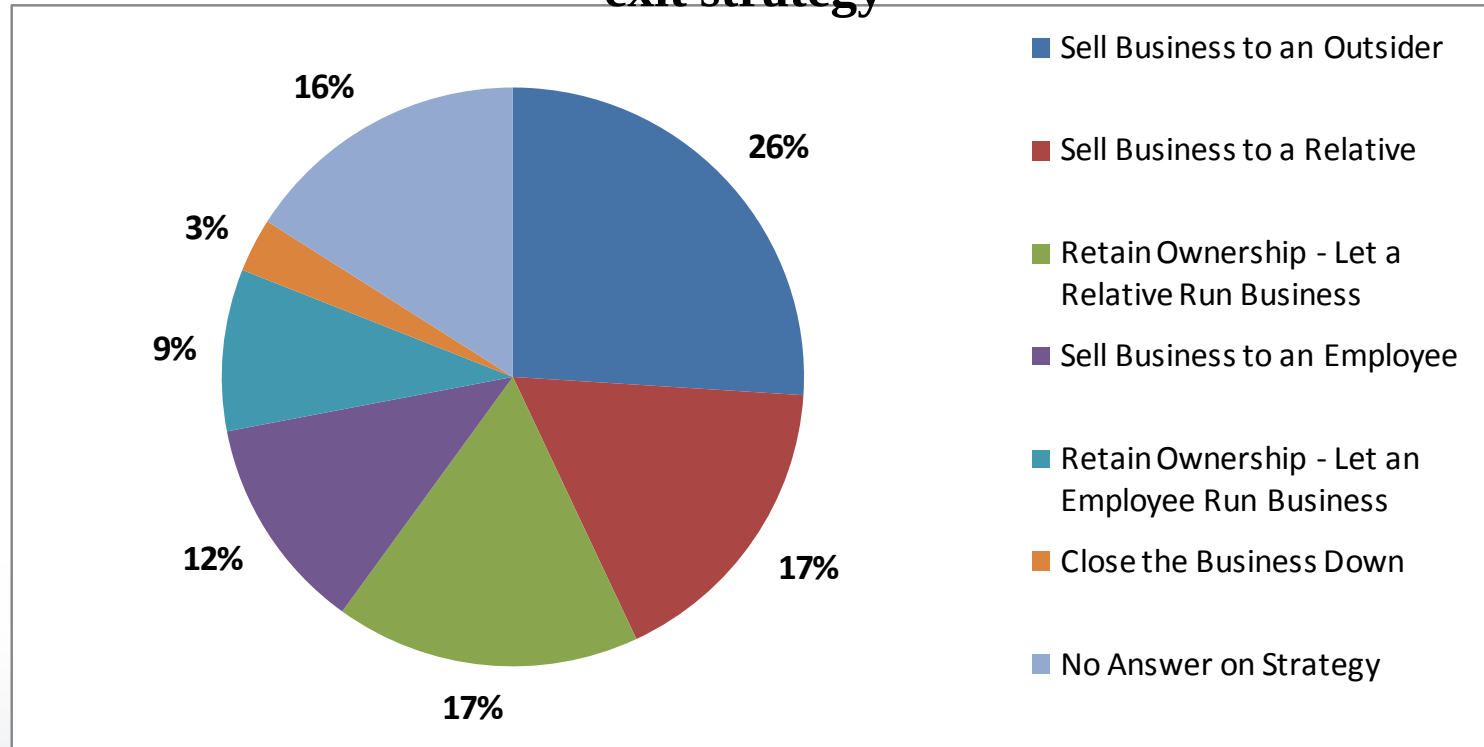


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SUCCESSION PLANNING

Only 25 per cent of business owners had formally planned an exit strategy



Source: Thomson Reuters & McKinsey & Company, "Private Equity in Canada 2008"



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START PLANNING YOUR EXIT NOW

Transitioning on your own terms

- A study of 300 US business owners found that 75 per cent felt their sale did not accomplish their personal and financial objectives
- Out of 100 business owners who sold recently, a majority claimed they made crucial mistakes and wished to repeat the process
- 58 per cent of North American business owners did not know their company's true value



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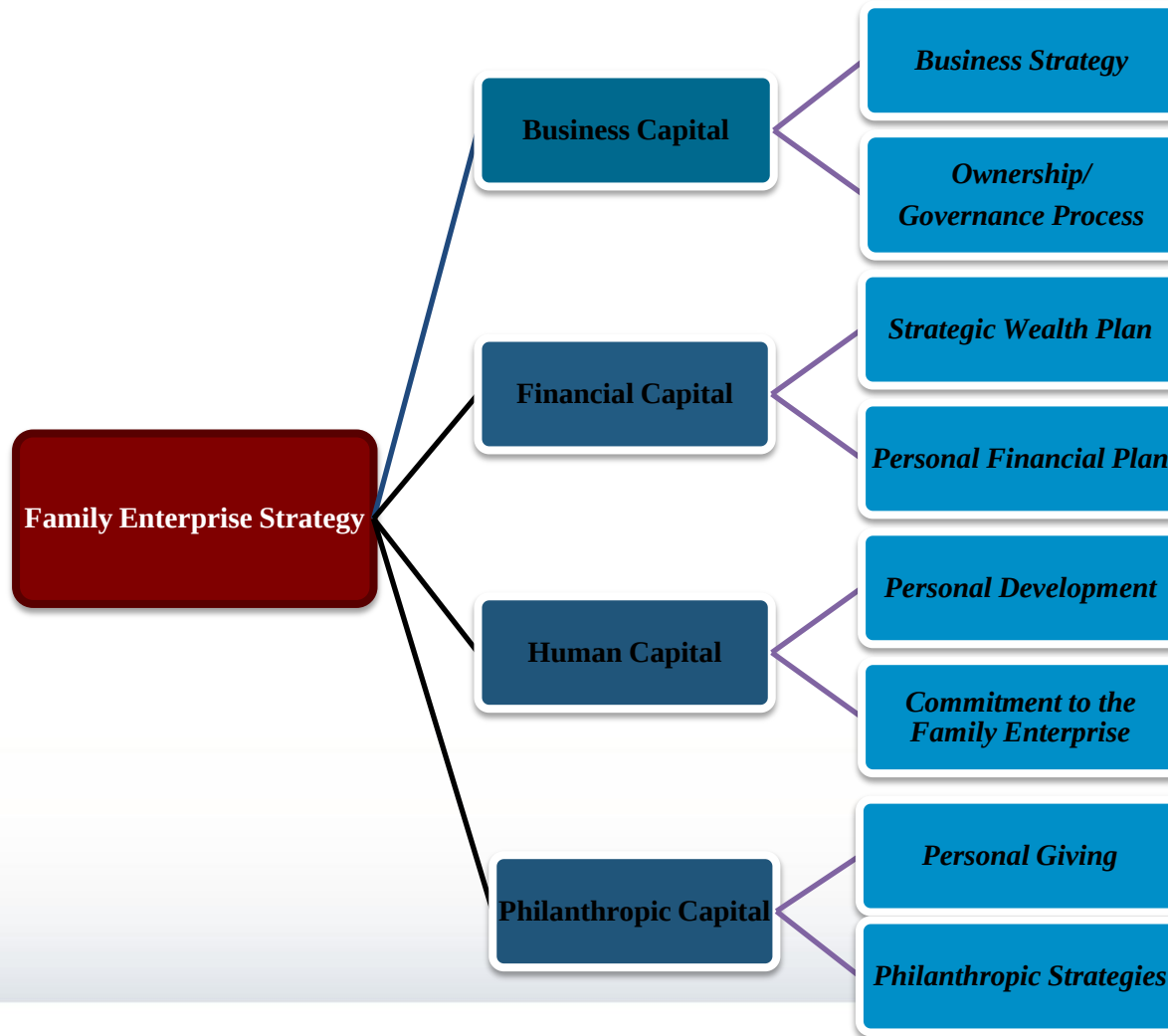
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A STRATEGIC PROCESS HAS MANY FACETS



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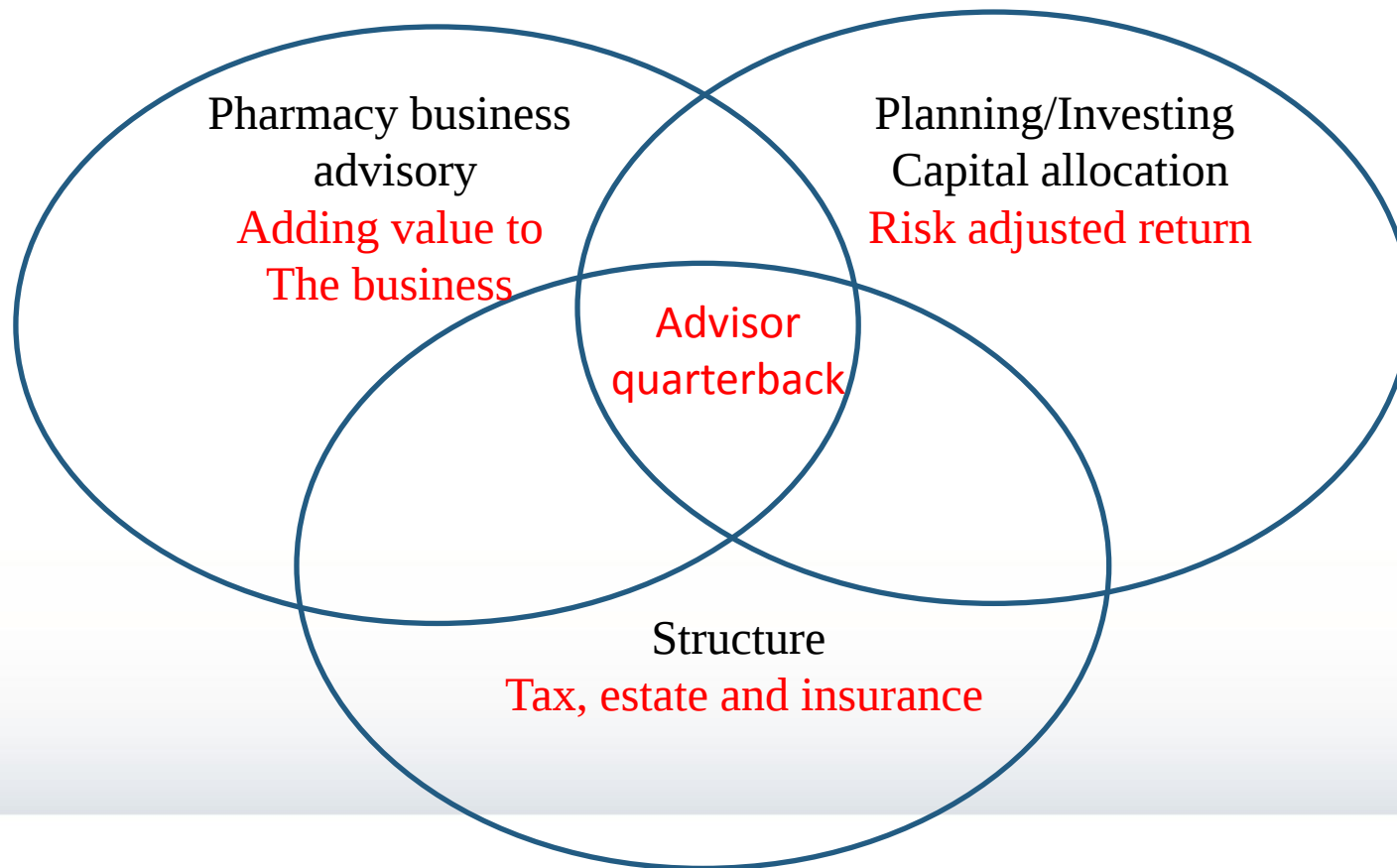


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INTERGRATED TRANSITION STRATEGY

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ADVISORS YOU WILL REQUIRE

- Legal – corporate, tax and estate
- Accounting – bookkeeping, filing and tax
- Financial – banking and investing
- Real estate



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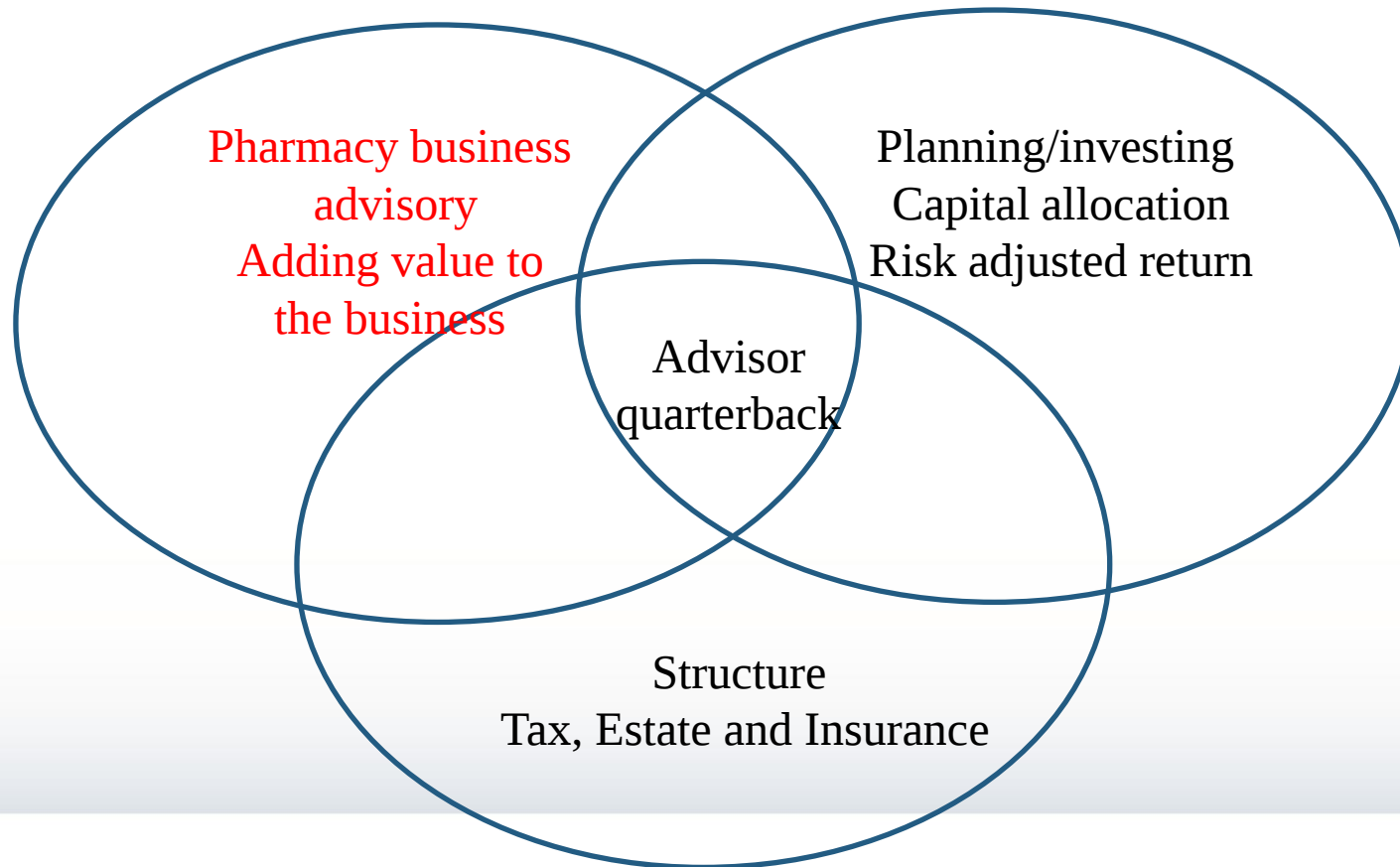


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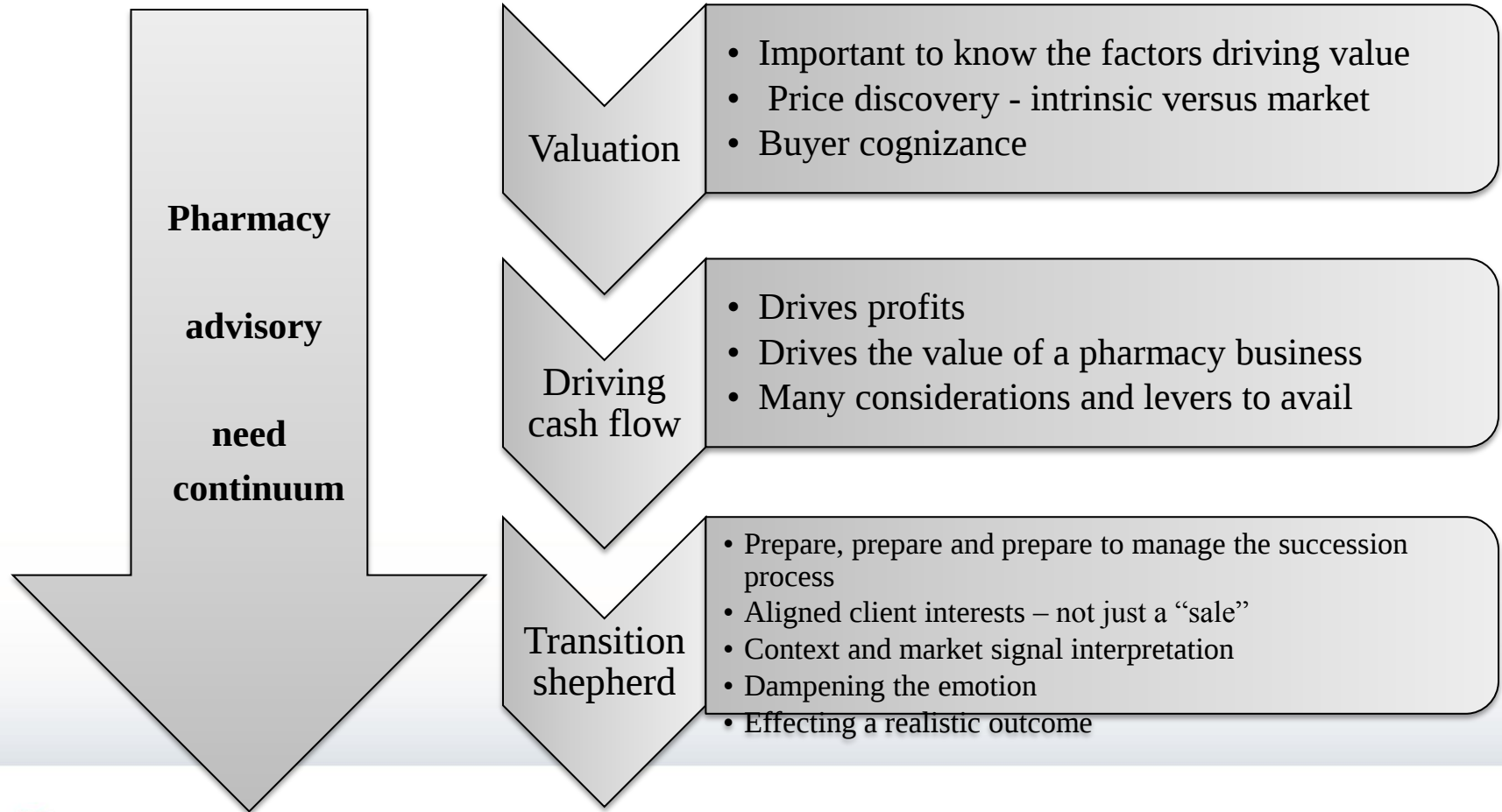
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WHAT PHARMACY OWNERS NEED TO KNOW



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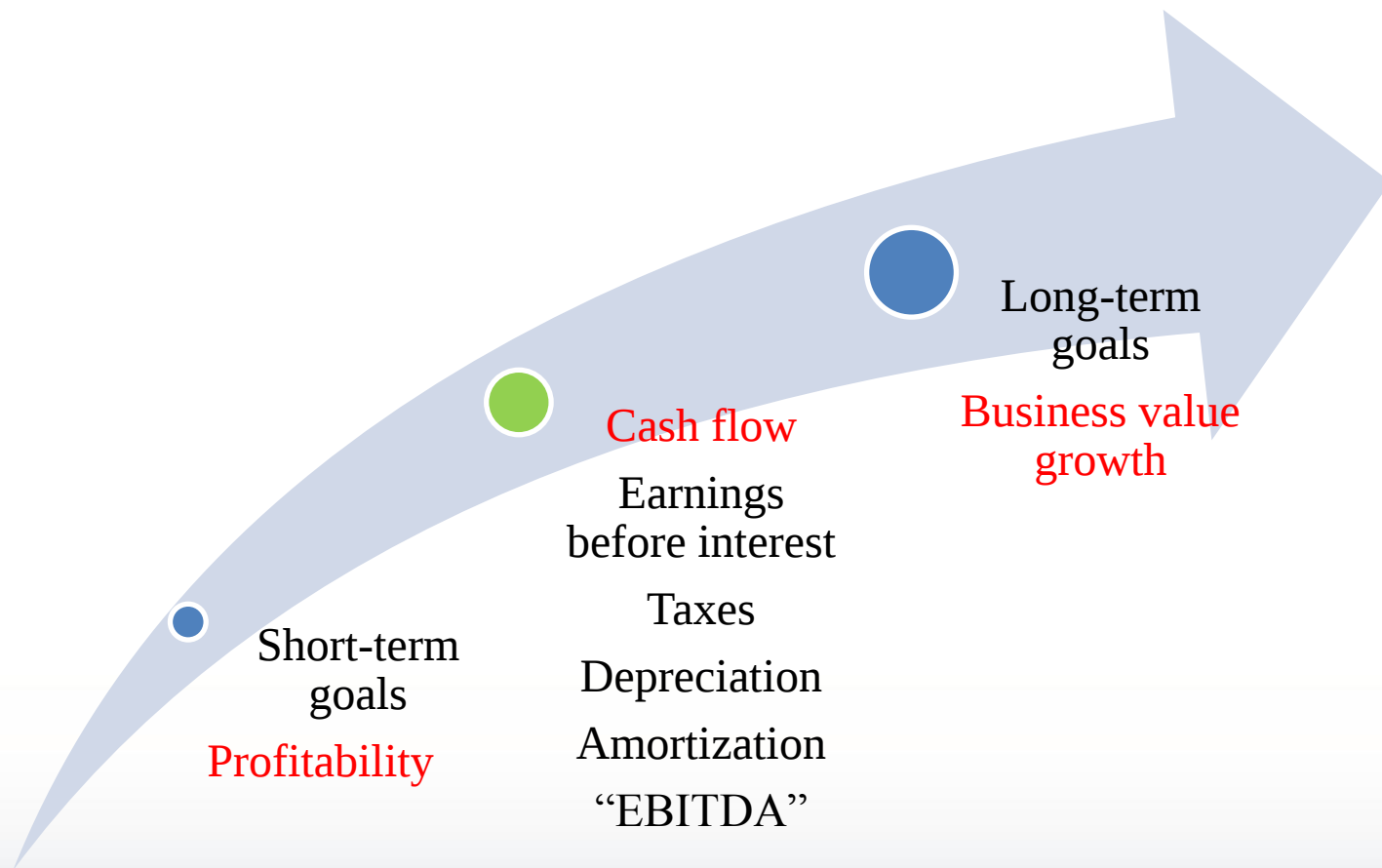
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THE RELATIONSHIP



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WHY DO A VALUATION?

- Legal – corporate, tax and estate:
 - Sale
 - Estate freeze – tax planning and re-org
- Various methods:
 - \$/script
 - Sales multiple
 - Cash flow multiple



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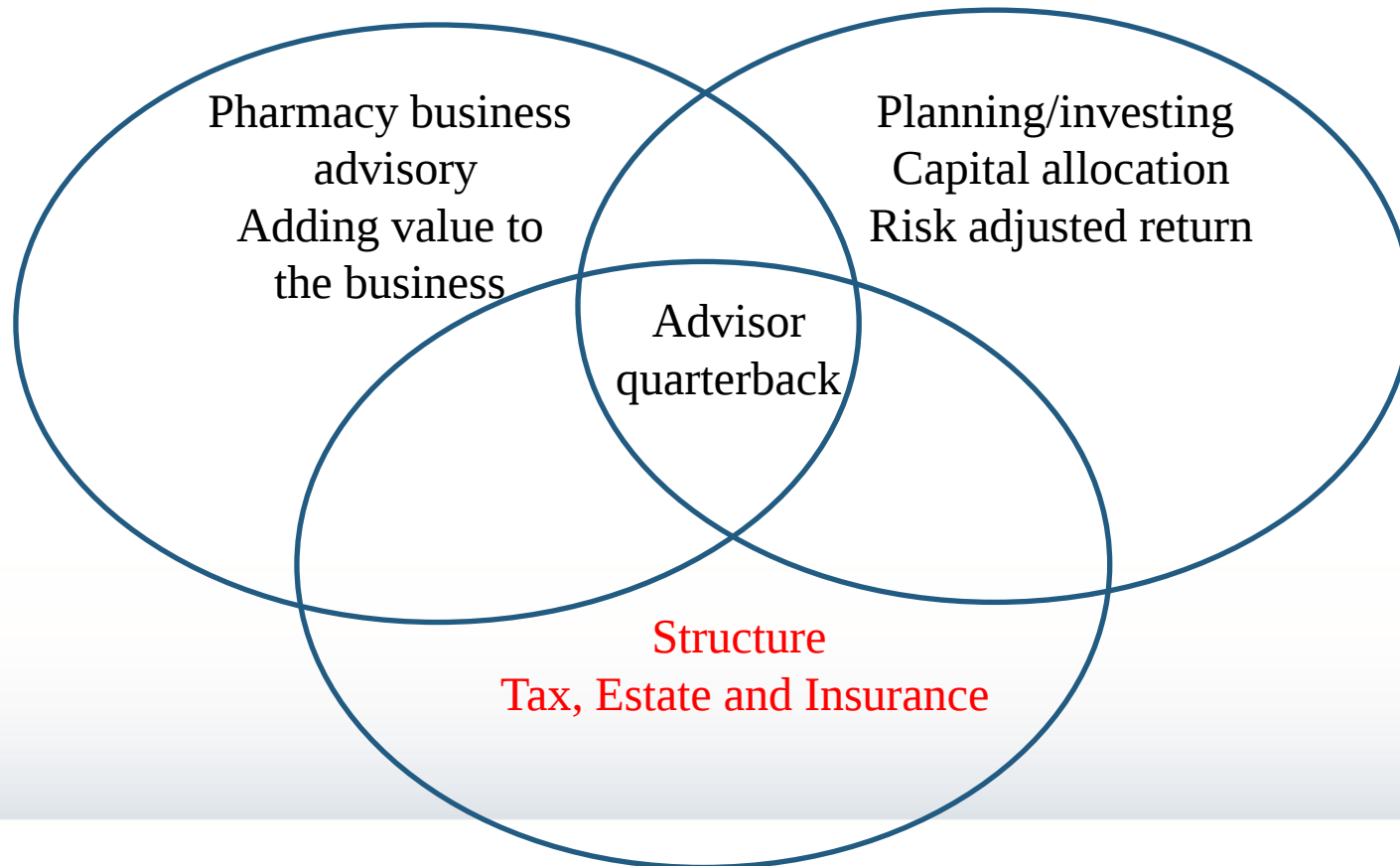


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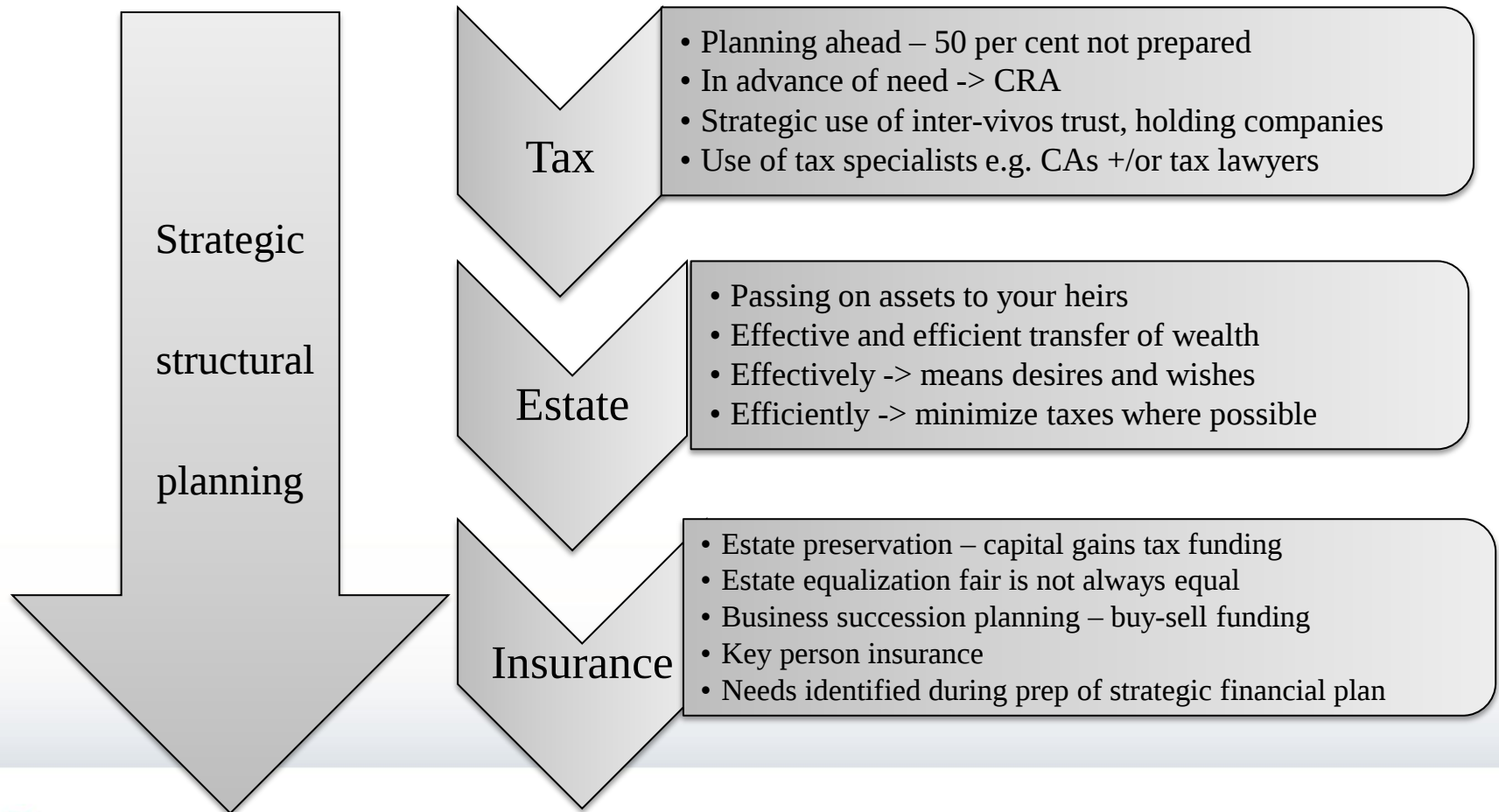
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STRUCTURAL PLANNING REORGANIZATION



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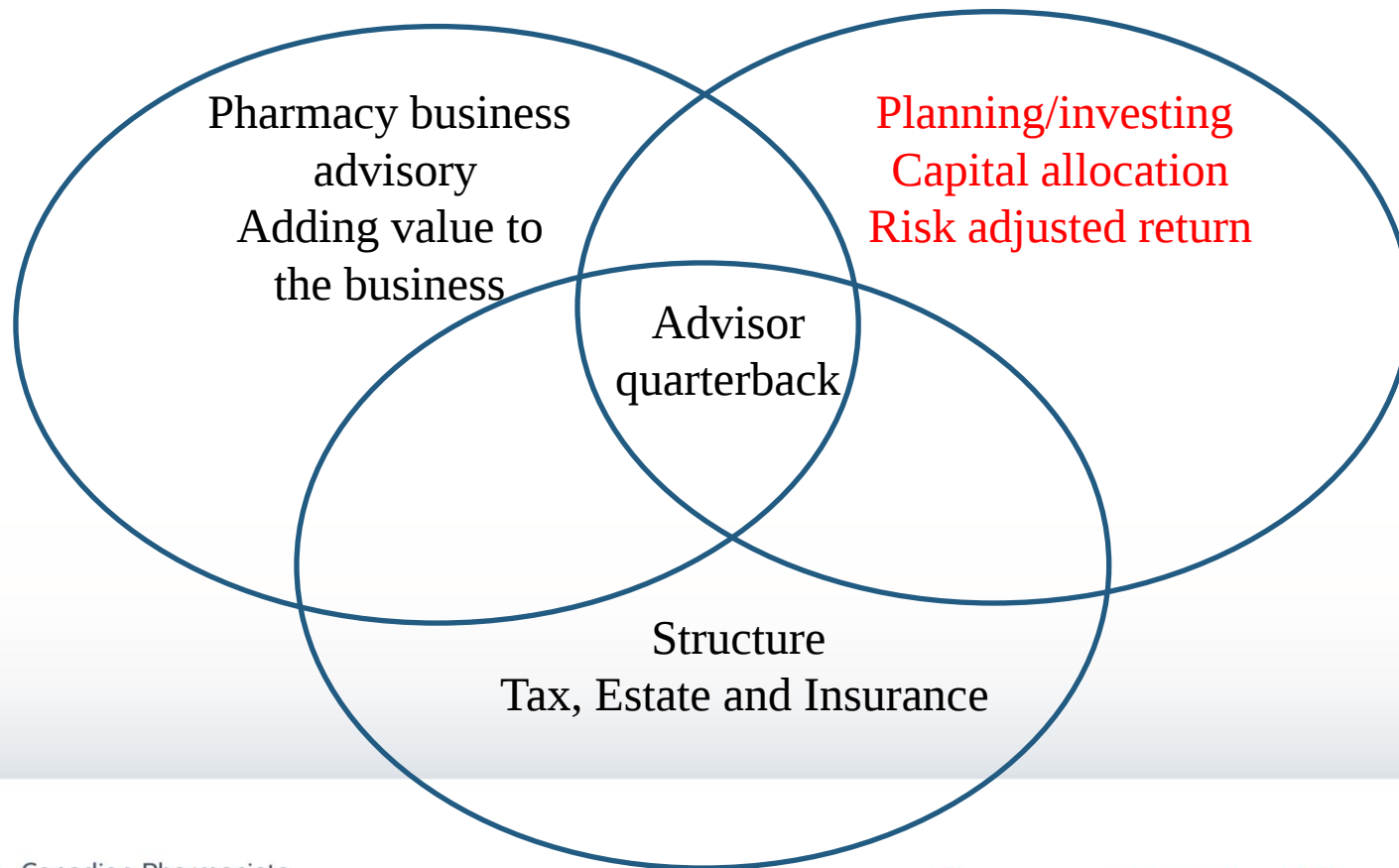


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THE BIGGEST CHALLENGES OF RETIRMENT TRANSITIONING

- Transitioning from generating a significant amount of cash flow from your pharmacy business to generating cash flow from financial assets to support your lifestyle goals in retirement

Pharmacy owner	Retirement
Steady cash flowing business	Volatile market
Illiquid asset and concentration risk	Liquid asset
Generates recurring income	Returns are aperiodic
Building equity and defines identity	Protecting capital

Important to redefine financial success as risk management becomes crucial



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WHAT EVERY PHARMACY OWNER NEEDS TO KNOW

- Skill sets required to create wealth and live off family business - different from skill sets to transition wealth, become an investor and live off those proceeds



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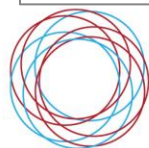
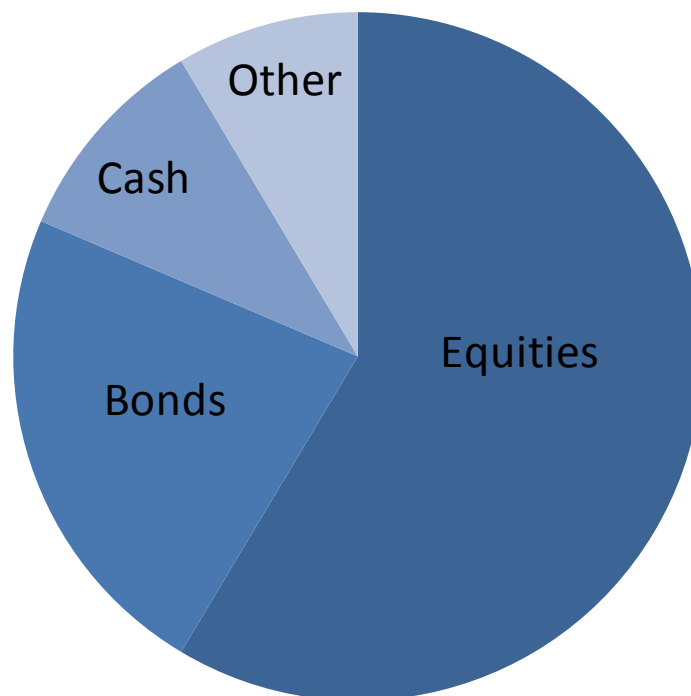


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ASSET CLASSES

Asset classes options



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DEPRECIATING ASSET CLASSES



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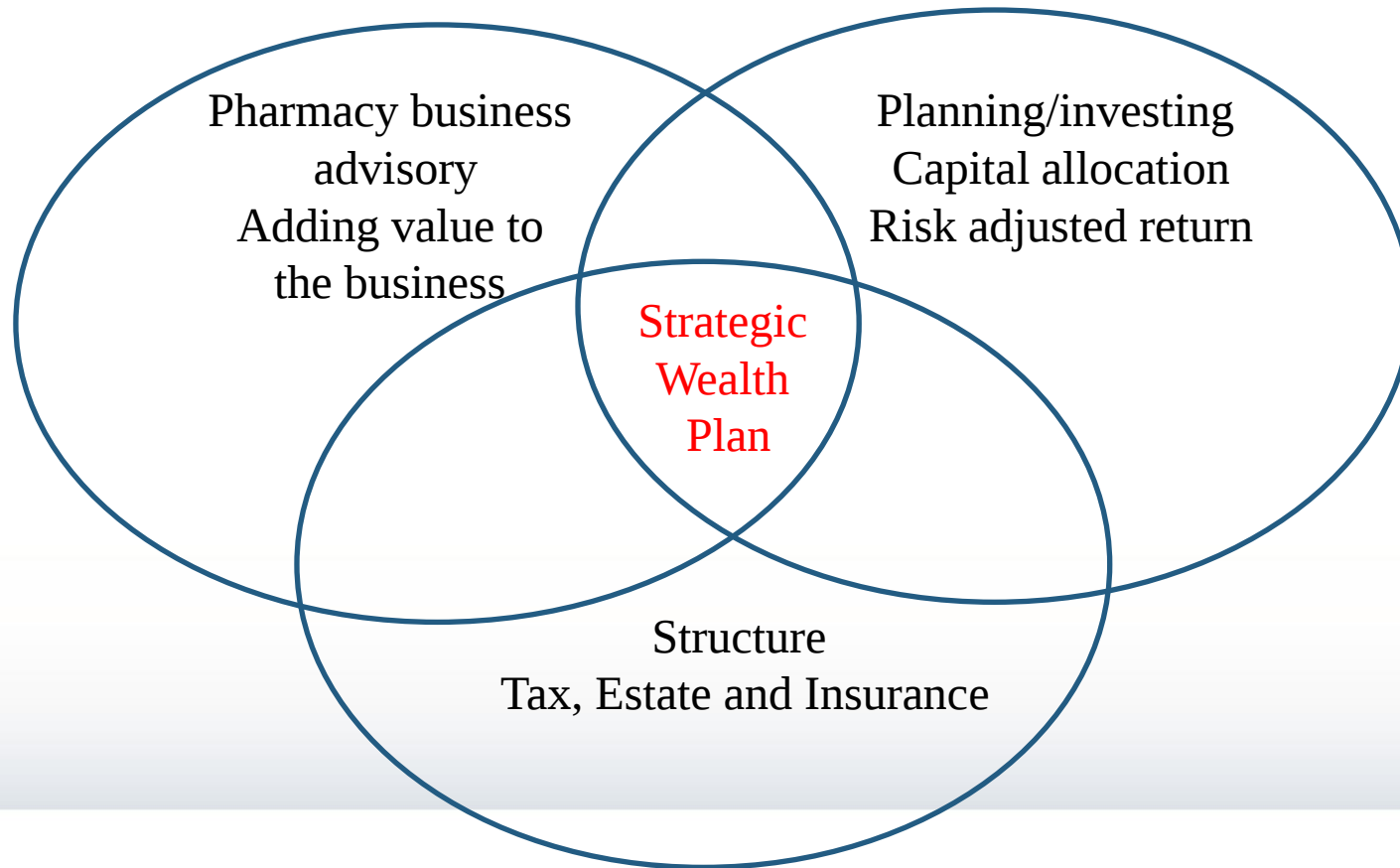


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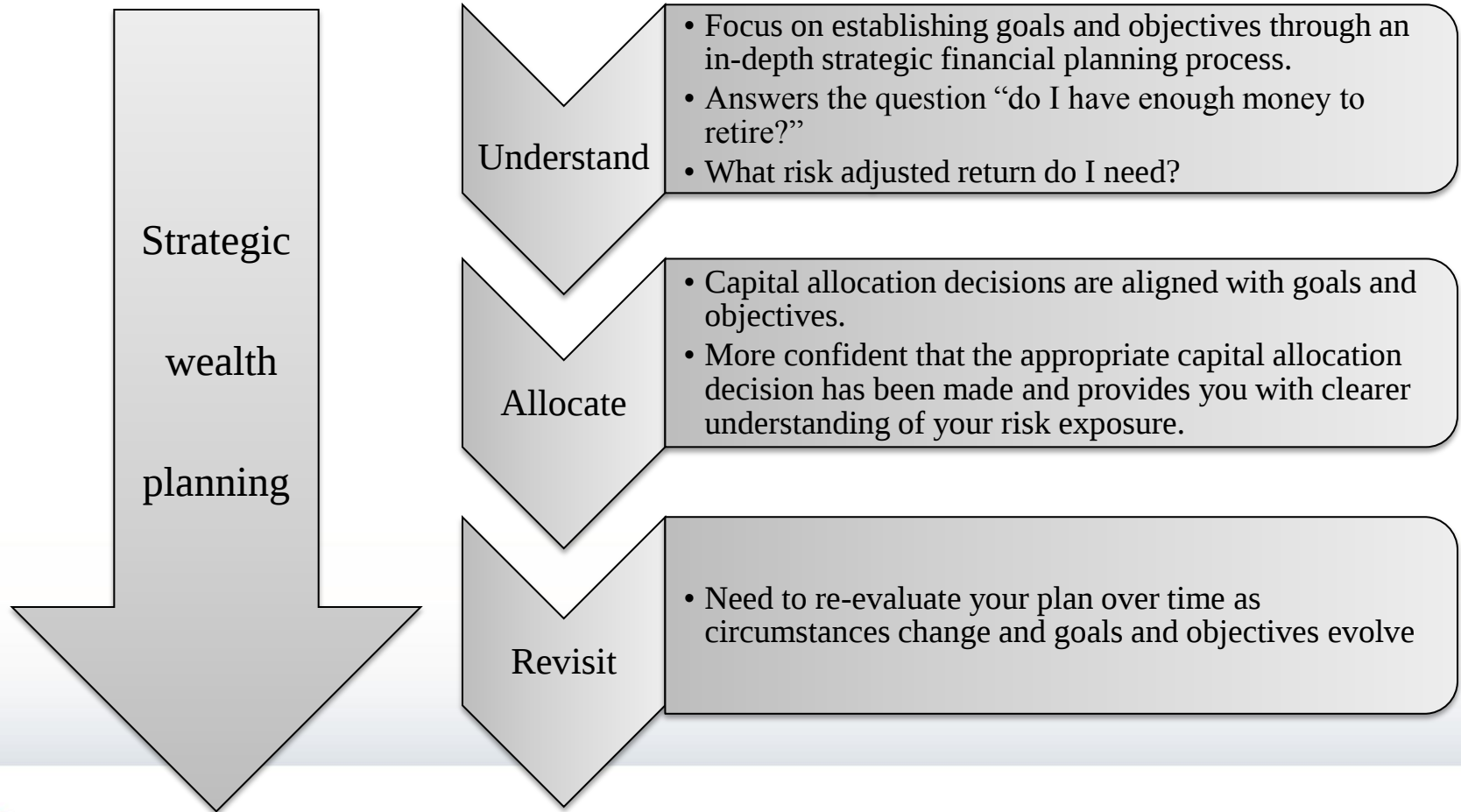
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FINANCIAL PLANNING



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CHOOSING YOUR ADVISORS

In addition to receiving sound counsel around capital allocation:

- A good advisor must be committed to enhancing the financial well-being of his/her clients by providing proactive advice on the associated complexities of wealth management
- Must be prepared to work with you and your other advisors to ensure that your capital allocation plan is integrated with your overall wealth plan, addressing any estate or tax issues Financial – Banking and investing
- Advise must be **co-ordinated** and **integrated**



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Questions?

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