



Structuring for Success

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Previously I have written about the challenges of buying a pharmacy including some of the financial realities that surround a successful purchase. This article is about structuring for success.

Pharmacy business structuring includes a myriad of topics such as ownership, staff mix/skill set, IT policies & disaster recovery plans, partnership agreements, sale/purchase option agreements, insurances and business plans to name but a few etc.

At the core of Structuring is a focus on managing risk, maximizing cash flow and establishing a platform to allow a business to be competitive and flourish. Changing structures can be both expensive and distracting so great care is required when first deciding how to create (or re-create) your business.

This discussion focuses specifically on ownership structures as it is the first decision that is required once a price has been agreed. In addition, regulatory change over recent years across many states has enhanced the ownership options open to Pharmacists by allowing the business to be held by a company. Most jurisdictions confine shareholdings in these companies however to just pharmacists and/or their spouses.

Many existing owners have restructured their businesses over recent years to improve debt structuring, eliminate service entities, reduce risk exposure and increase both cash flow and competitiveness.

This one step alone often delivers significantly improved medium term cash flow due to tax savings and has afforded many new buyers increased capacity to cope with pharmacy purchase prices.

Inevitably the question that should be asked by all owners is, should I own my business in a company? The answer will not always be clear, but here are some of the features to consider when determining whether a company structure can benefit both you and your business.

Advantages

1. Companies are taxed at a flat tax rate of 30%. This compares to the maximum individual rate of 46.5% and hence allows for accelerated debt reduction and increased business investment;

2. It usually eliminates the need for multiple structures (i.e. service trusts) which are often unwieldy and prohibit easy monthly reviews of financial performance;
3. By selling into a company a restructure provides an opportunity for existing owners to “re-gear” their business and release cash for other purposes;
4. Banks understand and like company structures;
5. Small business capital gains tax concessions apply to companies and individuals
6. Better structure than partnerships – shareholders do not have to be directors which allow for better control of liability risk;
7. Provides an opportunity for Pharmacist employee share plans;
8. Greater ability for passive ownership by pharmacists – has effectively replaced limited partnerships model;
9. Share transfers are simpler to deal with than partnership interest transfers – no changes in loan / guarantee documentation / lower stamp duty costs;
10. Securities are simpler to deal with and can also be more easily confined to the company and the business to which they relate without affecting an individual’s other assets;

Disadvantages

1. For restructures there is a stamp duty cost on transfer of business into a company (this issue is irrelevant for initial buyers and minimal in Victoria and ACT due to exemption on goodwill/business transfers. NSW has provisions to exempt stamp duty on restructures to a company undertaken by owners that have held their business since pre the legislation change to allow company ownership in 2006);
2. Capital Gains Tax – loss of some of the concessions that attach to owning a business individually on eventual sale;

What structure suits you?

Clearly there is no “one size that fits all” but importantly there are options... most States and Territories of Australia allow pharmacies to be owned by companies.

The available options allow for a Pharmacy business to be structured for maximum operational effectiveness and hence compete with minimum risk and maximum cash flow. The decision of which entity is preferred to own a pharmacy needs planning and understanding to ensure that you can then focus on what matters most – your customers!