

KEY PERFORMANCE INDICATORS THAT IMPACT YOUR BOTTOM LINE, CASH FLOW, AND PHARMACY VALUATION



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LEARNING OBJECTIVES

- Define best practices for pharmacy accounting
- Overview the top key performance indicators for pharmacies
- Discuss the opportunities to enhance pharmacy cash flow and valuation

WHY FUNDAMENTAL ACCOUNTING IS SO IMPORTANT

- Successful pharmacies have a strong accounting foundation
- Sound fundamentals are key to outperforming industry averages
- Pharmacy industry inherently requires a sound accounting foundation/system
- Lack of the fundamentals will weaken your business sooner or later

WHY FUNDAMENTAL ACCOUNTING IS SO IMPORTANT

- Provides real-time information
- Allows owner to be proactive
- Delivers insight to trends, weaknesses and strengths
- Opens the door to tax planning and mitigation
- Technology drives this fundamental system to give you the data you need, timely
- Provides opportunity for pharmacy owner to shift focus to patient care and growth



DAILY PROCESSES

- Daily and weekly processes and procedures
- Mitigates internal control risk with theft and misappropriation of funds
- Consists of:
 - Daily POS reporting and bank reconciliation
 - Payroll enhancements using technology
 - Accounts Payable automation using technology

BALANCE SHEET

- Critical component of the accounting system
- Need to understand your balance sheet to understand your pharmacy
- $\text{Assets} = \text{Liabilities} + \text{Equity}$
- Assets include cash, receivables, inventory, fixed assets

BALANCE SHEET

- Liabilities include accounts payable, notes payable, sales tax payable
- Equity includes retained earnings, capital, distributions or draws

THIRD PARTY RECEIVABLES

- Largest unreconciled bank account in a pharmacy
- Adjudicate a script, money is owed to the pharmacy – revenue
- Money owed to the pharmacy is an asset – third party accounts receivable
- An increase in receivables (balance sheet) means an increase in revenue (profit and loss)

THIRD PARTY RECEIVABLES

- Fill and hope is not a sound business strategy
- Technology today allows for efficient capture of information, management and enhanced reporting
- Typical outstanding claim is 19-21 days
- Technology allows for DIR/GER/BER reporting
- Do you know how much is owed to your pharmacy?
- It's your money, know what is owed to you!

INVENTORY

- Biggest cash flow opportunity in pharmacy
- Industry average around 11 turns a year
- High performing pharmacies have 20 plus inventory turns and take inventory management very seriously
- $\text{Inventory turn} = \text{cost of goods sold} / \text{average inventory}$
- \$100 bills on the shelf
- Poor management can create increased tax liabilities and hammer cash flow

INVENTORY

- Inaccuracies impact financial statements and tax burden
- Understand your demand; use technology to maximize the constant shifts and reorder points
- Carefully craft reorder points
- Next day ordering; let wholesaler carry cost/risk
- Define and implement inventory management processes
- Utilize automation and technology

INVENTORY

- Must have perpetual inventory
- Schedule periodic cycle counts
- Use industry specialists periodically for actual counts and management
- Understand package size and economies of scale
- Synchronization
- Scheduled returns
- Accurate cost downloads (EDI) necessary

PROFIT AND LOSS

- Displays revenues, expenses, gross margin, net income/loss
- Balance sheet adjustments directly affect profit and loss
- Lack of integrity on balance sheet means profit and loss has little value
- Must understand how the balance sheet and profit and loss interact

PROFIT AND LOSS

- Gross margin directly impacted by inventory levels on balance sheet
- Average gross margin 2019/2020 roughly 23% with high performing pharmacies 24% ++
- Below average margin, why? Start with accounting fundamentals
- Focus has been shifting towards revenue diversification
- DIR Fee reporting very important

KEY PHARMACY INDICATORS

- Average inventory turns 11X
- Average outstanding AR Third Party 19-21 days
- Average Current Ratio 2.0 – 2.5X (Current Ratio = Current Assets/Current Liabilities)
- Equity to Assets 10-20% for newer pharmacies and 50% for mature pharmacies (Equity Ratio = Total Equity/Total Assets)

KEY PHARMACY INDICATORS

- Average gross margin 2019/2020 roughly 23% with high performing pharmacies 24% ++
- DIR Fees 1.8% - 4.5%
- Gross Payroll as a % of Revenue – 10.5%
- Overhead as a % of Revenue – 7%
- Bottom Line – 4-7%

TAX PLANNING TO MAXIMIZE CASH FLOW

- Accrual to cash accounting (TCJA of 2017)
- Depreciation
- Cost segregation
- Buy/sell tax considerations
- Charity planning
- Section 199A Deduction
- Retirement Planning

COVID-19 CASH FLOW PLANNING

- CARES Act had many tax provisions to assist taxpayers
- Paycheck Protection Program Loans (PPP)
- Economic Injury Disaster Loans (EIDL)
- SBA Loan Forbearance

QUESTIONS?

Thank you!

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