MCKESSON

Owning your pharmacy:
Keys to securing the financing you need to succeed

This is part 4 of a 6-part series focused on how to get started opening a new pharmacy.

All the research you have done in starting or acquiring a pharmacy is essential. And the plans you have developed for making your pharmacy a success are critical.

But turning your research and plans into reality requires that you **secure financing**.

What creditors need to see

To prove to creditors that your business is a sound bet, you'll need to show you're financially responsible personally and professionally.

That's right, your personal financial picture will be one of the risk factors that banks review in deciding whether to loan you money for your pharmacy.

Do you know your credit score? Most banks will review credit scores to determine your interest rates and how those rank against the national average.

Banks also will want to see your **personal financial statements**, including what you own, (your assets), and what you owe (your liabilities) to calculate your net worth.

You'll need a solid **business plan** with all of the documentation and numbers to prove you'll be able to pay back what you borrow. Be prepared to show projections of business expenses, revenue and net income, usually for three years, depending on the lender. Don't be intimidated by the need to develop your business plan. RxOwnership® advisors specialize in helping new pharmacy owners through this process with confidential, no-fee consultations.

To finance the purchase of an existing pharmacy, you'll need **additional documentation**, most of which you will collect in determining the valuation of the business, another area where RxOwnership provides no-cost assistance. Be prepared with three years of P&Ls (profit and loss statements), balance sheets, script counts and tax documents.

Tips for choosing the right lender

By going through all the necessary steps, preparing thoroughly, and gathering all of the necessary documentation, there may be multiple potential lenders.

However, seek to **work with a lender who understands the pharmacy business**.

The right lender will let you know if your business plan projections are reasonable and are in line with the industry norms in your area. Plus, they will understand what the financial statements show about a pharmacy in your area that you are looking to acquire.

Your lender should understand the complexities of how finances flow in a pharmacy. As you know, you may not be paid for a month or more after dispensing a prescription, and then may be hit with a DIR fee three to six months later.

Plan for enough working capital for 18-24 months, so you don't have to go back to a lender and ask for more capital a few months after you open the door.

While many financing options are available and are appropriate in different situations, most pharmacy transactions are financed through **Small Business Administration loans**. If you are going that route, working with an SBA preferred lender can trim the time for approval.

While you generally need to put at least 10% down, the amount can range from 5% to 20%. That means that if the total amount of a loan is $800,000, you could need from $40,000 to

$160,000 in cash. Also, lenders may require a larger down payment with a startup, because there is no established history and cash flow, which makes their risk higher. The down payment amount can vary depending on the circumstances.

An option if acquiring an existing pharmacy may be **seller financing**. In this instance, it might be possible to negotiate putting just 5% down and having the seller finance the other 95%. A seller may be interested in financing a deal because that spreads out their capital gains. Reminder, with seller financing the deal still needs to generate cash flow - do not overpay!

Another financing option is **supplier financing** from, for example, your pharmacy wholesaler, which provides the possibility for lower fees than an SBA loan but a slightly higher interest rate. Typically a wholesaler can move through the lending process quicker than a banking lender.

Other options include self-funding, securing investment from friends and family, taking out home equity lines of credit and borrowing against retirement savings. A word of caution: It is recommended a **careful evaluation** is performed prior to considering these options as they can allude to risk and additional stress.

Buying or building a pharmacy for the first time can be daunting. Having a team beside you that knows the process inside out and does it all the time can provide both guidance and confidence that you aren't missing important details or options.

RxOwnership advisors have helped thousands of owners buy, build and sell pharmacies, with confidential, no-fee consultations. Plus, the RxOwnership team has relationships with lenders that specialize in both pharmacy startups and acquisitions.

Those are just some of the considerations you will need to weigh as you decide whether to build or buy your independent pharmacy. Regardless of your decision, keep in mind that neither path is a one-person job.

Contact RxOwnership today to ask questions with no risk or obligation.

Whether you're ready to move forward now to become a pharmacy owner or think it may be in your future, follow RxOwnership to stay on top of industry news on Twitter or LinkedIn.

Sincerely,

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