

A Guide to Pharmacy Financing

Purchasing a pharmacy can be quite a task. In this guide, you will learn the key phases of acquiring financing for a pharmacy and suggested actions for each phase. Before beginning any stages, you should build a team of experts. These may include: an attorney, a banker, a broker, and an accountant.

PHASE 1: FIND AND CONFIRM THE DEAL AND LOCATION

This is an important step. The loan application process cannot move forward until these items are confirmed.

1. You will need to identify a business to purchase and then negotiate a purchase price.
2. Likely, a letter of intent with the seller will be needed. Assistance of a broker, attorney, or pharmacy consultant may be needed to help with the process.
3. Due diligence is critical to the success of your new or ongoing business. You will want to ensure the pharmacy has adequate cash flow to support the debt associated with acquiring the business.

PHASE 2: IDENTIFY FINANCING NEED

Now that you have the structure in place, it is time to determine the amount of money you will need to borrow to close the transaction.

1. Identify the funds you have available for an equity injection (down payment).
 - a. Small Business Administration (SBA) requires an equity injection of at least 10% of the total project cost.
 - b. The equity injection can be satisfied by cash from the borrower or a combination of cash from the borrower and a seller stand-by note. A seller standby note is one in which no payments are made to the seller for the term of the SBA loan. A seller note can only account for half of the required injection.
2. Determine your working capital needs.
3. Determine your overall financing need.

PHASE 3: IDENTIFY YOUR LENDER

Finding a lender who knows and understands the pharmacy business is very important. Having a good relationship with your lender is essential. Many pharmacy loan applicants find it difficult to qualify for a conventional loan due to the lack of tangible assets being purchased. For these transactions, an SBA loan may be an option.

1. Determine what type of loan you qualify for: whether a conventional loan or an SBA loan.
2. Interview loan officers of banks that specialize in pharmacy loans to find the one that is the best fit for you and your business.

- a. Industry and wholesaler trade shows are good places to meet and converse with various lenders.

- b. If opting for an SBA loan, when interviewing lenders ask if the lending institution is an SBA Preferred Lending Partner (PLP). This is a designation given by the SBA to banks that have the expertise to underwrite SBA loans "in-house".

- c. Ask if the loan officer will be your point of contact throughout the entire process or if you will be handed off to others throughout the loan process. Usually, it is much easier to communicate with one bank contact than with a host of people.

3. Make a decision. The important factor to consider is your relationship with your loan officer and with the bank.

PHASE 4: APPLY FOR THE LOAN

To apply for a loan, you will need to complete and submit various documents. Once this information is collected, the loan officer typically presents the request to the bank's loan committee for approval within 1-2 weeks. If approved, the loan officer sends out an approval letter that outlines the terms and conditions of the loan. If the borrower accepts and signs, the loan officer then sends out a checklist on items that will be needed for closing (see Phase 5). Some of these documents may include:

- Loan application
- Personal Financial Statement
- Pharmacy Questionnaire
- Last three years' tax returns and most recent income statement and balance sheet for pharmacy to be acquired
- Last three years' personal tax returns
- Resume

PHASE 5: BEGIN THE LOAN CLOSING PROCESS

The closing process usually takes 45 to 60 days to complete. Once all documents are completed, it goes to the bank's SBA underwriter to obtain an SBA authorization. As stated before, PLP lenders do this in-house. Their underwriters are well-versed in the details of the SBA's requirements. Below is an example of the documents and processes that are necessary to complete the package.

- A copy of the executed purchase agreement and seller note - signed by all parties.
- A signed copy of the lease
 - o The lease term needs to have an option to renew for the term of the loan.
- Articles of Organization/Incorporation and Operating Agreement/By-Laws for borrowing entity(ies).

- EIN number
 - o Provided by your state.
- Signed tax returns
- Copy of all purchasers' driver's licenses
- Income Statement and Balance Sheet for the pharmacy being acquired
 - o These must be signed by the seller and dated within 120 days of closing.
- Insurance for the business
 - o The bank is to be named as the lender/ loss payee on business and personal property coverage.
- Life Insurance
 - o The bank will likely require a life insurance policy assigned to the bank.
- The bank will order the business valuation, appraisal, and title insurance on the collateral.
- Equity Injection
 - o Three months of bank statements that show the cash injection has been in the account for the entire three months.
 - o It is important that the account balance not drop below the required cash injection amount at any time.
- Franchise documents
 - o If operating as a franchise, you will need to provide the executed franchise agreement and SBA franchise addendum.

After these items are collected, your loan officer will send them to the underwriter for SBA loan authorization

PHASE 6: CLOSE THE LOAN

Once the loan has been authorized and reviewed, the closing process begins.

1. Set a time and date for the closing with escrow, attorney, or other closing agent.
2. Perform inventory inspection to determine the inventory value.
3. Sign the closing documents.

CONGRATULATIONS YOU ARE NOW AN OWNER!