

# CASE STUDY

## Your Pharmacy Financing Solution From First Financial Bank

Clearing the path to pharmacy ownership with industry knowledge and personalized service.



**Mike Patel**

Owner / Pharmacist

~ Lewis Pharmacy, Palm Beach, FL

### PRIMARY INTENDED OUTCOME

Pharmacy ownership is a big step that commonly requires gathering large sums of money in the form of bank loans. It can be difficult for prospective pharmacy owners to secure commercial loans because most banks are asset-based lenders.

One of an existing pharmacy's biggest assets is the prescription files. Without understanding how pharmacies operate, commercial banks can place little value on these "blue sky" assets, despite their worth of potentially many hundreds of thousands of dollars.

First Financial Bank (FFB) is a customer-oriented community bank headquartered in El Dorado, Arkansas, and a national lender that specializes in industry-specific loans to pharmacists and veterinarians. Their pharmacy lending team includes current and past pharmacy owners with more than 75 years of combined pharmacy experience. Their expertise in working with independent pharmacies allows them to offer a range of flexible terms tailored to the unique situation of pharmacy ownership.

### THE CHALLENGE

Mike Patel recalls a business class he took in pharmacy school. "The professor said there was no money in pharmacy ownership. He told us we needed to earn doctorates and do clinical pharmacy to be successful. I assumed he knew what he was talking about."

Nearly a decade later, Patel was working in retail pharmacy and looking for an opportunity. He was still interested in owning a business, but couldn't shake the professor's negative prediction. A friend remarked that the professor had probably never owned a business himself. Patel took that point to heart and decided to talk to a few independent pharmacy owners. The first pharmacist he approached was very encouraging. "He told me, by owning a pharmacy I would be giving myself a raise from day one." That was all the encouragement Patel needed.

### THE DECISION

Patel is now owner/operator of 15 stores in five states, including two startups, that span LTC, infusion, sterile compounding (503A), and specialty pharmacy. He first entered into pharmacy ownership in 2005 in the Palm Beach area. "I remember trying to do this type of loan with another bank in the past," he said, "and it felt like talking to someone who had no idea of what I was trying to present."



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*“Helping customers with their health carries a tremendous weight.”*

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Out of more than 3,000 banks in the U.S., First Financial is one of only a handful of lenders who operate in the pharmacy space. “One of the biggest reasons I chose First Financial was their experience in this market,” Patel said.

Pharmacy cashflow is notably different from other small businesses. Accounts receivable and accounts payable operate on longer timelines, which many banks don’t understand. That lack of knowledge can delay the loan process and potentially thwart a purchase. “A lot of pharmacy sellers don’t want to wait six months [for a deal to happen],” Patel said. “First Financial was extremely efficient.”

Pharmacy loans can also be quite large. “A lot of banks see the size of those numbers and they just aren’t comfortable with that,” Patel said.

Interestingly, less than 1% of loans for independent pharmacies have failed. “This is actually a great success rate for banks and lending,” said Bob Gaul, Managing Director of Business Development for First Financial Bank.

## THE RESULTS

First Financial wants their borrowers to succeed at pharmacy ownership. The loan officers’ industry expertise equips them to do just that in a number of ways.

“After you do your own due diligence, you get a second set of eyes to go over your work,” Patel said. Those extra eyes offer more than a quality check; your FFB lender also provides industry insights that are crucial for someone starting out.

And when it comes to negotiating a purchase, once again, First Financial’s pharmacy-specific experience delivers added value to the borrower. “They have seen so many deals and so many pharmacy types,” Patel said. “They know all about gross profit.”

This kind of insider market knowledge is a perk of the ongoing, mutually beneficial relationships that First Financial’s lenders tend to have with their clients. One successful venture often leads to another when you have guidance from loan officers who are so immersed in their field.

## THE CONCLUSION

Beyond the numbers, using First Financial for a pharmacy loan makes good business sense. “You get more bang for your buck,” as Patel put it. “The advice they provide will improve your whole business plan. For me, that meant gearing efforts toward specialized pharmacies that are less retail-based.”

Pharmacy ownership can be very rewarding, in every sense of the word. “Helping customers with their health carries a tremendous weight,” Patel said. First Financial understands the dollars and cents involved in providing good pharmacy care. Your lender will work with you, one-on-one, every step of the way through the pharmacy loan process, so that you can ultimately focus on your patients.

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## Q&A



With Bob Graul of First Financial Bank  
*Business Development*

### Q. What is your pharmacy career history?

I have a unique perspective on the industry, having seen it from a number of angles. After graduating in 1969, I worked in retail and nonprofit pharmacy. In the mid-1980s, I bought my first store in the San Diego market. I then bought, sold, and operated pharmacies for the next 25 years. I was considering retirement when McKesson recruited me to develop their pharmacy ownership program. Eight years later, First Financial brought me on to build their professional services division to support pharmacists on the path to ownership. This has given me the opportunity to see and understand many angles in the pharmacy business.

### Q. What are the most important requirements for buying or starting a pharmacy?

In an acquisition, we want to see good cash flow, credit reports, a personal financial statement, and tax returns, among other things. With a startup, what's critical is a solid business plan with at least three years of projections.

### Q. How much money is required up front, and how large is the typical pharmacy loan?

Acquisition loans can be quite large, anywhere from \$700,000 to \$5 million.

Startup loans are usually much smaller, around \$500,000 or less. Borrowers are typically required to provide 10% in equity, but other options exist.

### Q. How long will it take a pharmacy to become profitable?

An acquisition should be profitable from day one; your loan and payments should be packaged in a way to make that happen. Startups are different, and location, including geography and demographics, can be very important.

With an average location and decent marketing, it is possible to begin seeing a profit in one to two years.

## GUIDE TO PHARMACY OWNERSHIP: A CHECKLIST

*Bob Graul and First Financial Bank look for the "5 Cs" when supporting a pharmacist on the path to ownership. If you are considering purchasing or starting a pharmacy, going through this checklist will help you determine when it is time to give First Financial Bank a call.*

- Character:** Knowing what to expect goes a long way toward successful pharmacy ownership. Do you have previous work experience as a pharmacy owner or manager? Consider your personality as well; drive, confidence, great people skills, and a positive attitude are all part of a leadership mindset.
- Credit:** A strong credit score is a prerequisite. If your score needs a boost, take steps to improve your credit before applying for a loan.
- Cashflow:** Is there enough money in the deal to pay bills, cover salaries, and make loan payments? A detailed business plan will make it clear whether the venture you are considering is a sound one. This is particularly important when starting a new pharmacy.
- Capital:** Borrowers who want to acquire or start a pharmacy must provide their own equity money of at least 10%, but other options exist.
- Collateral:** Collateral can help you secure a loan. In some cases, collateral may take the form of script files, existing inventory, fixtures, or pharmacy equipment.



**We know how things look from your point of view.  
 We've been there.**

Our lending team has over 75 years of pharmacy experience and includes current and past pharmacy owners.

We are a preferred Small Business Administration (SBA) lender offering financing solutions to help practicing pharmacists meet a wide range of business needs:

- Acquisition
- Equipment financing
- Expansion & remodeling
- Business refinancing
- Start-up loans

We offer a wide range of flexible terms tailored to your unique situation. Whether you are buying, selling or refinancing, we'll work with you, one-on-one, every step of the way.

**Contact Our Pharmacy Loan Advisors Today:**



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