

Financing options for buying or starting an independent pharmacy



Once you have your pharmacy ownership plan in place, consider your many options to finance your new pharmacy or purchase an existing pharmacy location.

Many different types of financing are available today, including:

- Traditional lenders, such as banks
- Organizations such the Small Business Administration
- Suppliers and wholesalers
- Current pharmacy owner “Owner Financing”
- Personal or family loans

Rarely is just one type of financing used in the acquisition of a pharmacy. For this reason, it is important to understand the breadth of financing options available in order to determine the best options for your needs.

Accessing the sources of financing for your purchase

There are many sources of financing for pharmacies, including the ones listed to the left. Wholesalers, such as McKesson, are also important sources of financing.

Traditional lenders — including banks and financial institutions — underwrite each loan to assess the creditworthiness of the borrower. These institutions typically require specific data about the pharmacy to perform an analysis of the potential loan. This is their way of ensuring that the prospective borrower will be able to repay the loan.

When McKesson finances an independent pharmacy during ownership transfer, the same rigorous data gathering and analysis are conducted. While McKesson may have some of the financial and credit data in-house, based on its business relationship with the owner, additional information is also required in most cases.



Visit the [NCPA Ownership Workshop](#) to learn more.

RxOwnership® can help qualified buyers explore short- and long-term financing options directly through McKesson.

Types of financing for pharmacy buyers

Traditionally, financing is classified as short-term or long-term:

- Short-term financing is defined as financing with a term of less than one year. Short-term financing usually takes the form of dating (extended payment terms) and short-term notes. Short-term financing is typically not appropriate to fund the purchase of a pharmacy unless the borrower expects to be able to repay debt very quickly. It's typically used only to fund the opening inventory order.
- Long-term financing remains in effect for more than a year. It is generally required when an owner purchases an existing pharmacy or builds a store from the ground up. As an example, long-term financing from McKesson frequently takes the form of a promissory note with equal amortization of the principal amount.
- The typical term of financing from McKesson is three to seven years, with a maximum of seven years.

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McKesson loan requirements

Below are the basic requirements for long-term financing, from McKesson:

- Equity contribution in the range of 20%–25%: As the buyer, you must provide a down payment from your own resources.
- Collateral coverage of 1:1: For every dollar loaned, there must be a dollar of tangible goods that could be sold to pay off the debt. This collateral takes the form of inventory and accounts receivable. McKesson will also grant some value to the Rx files.
- First secured position filed under the Uniform Commercial Code (UCC).
- Complete financial documentation: A full understanding of the financial health of the pharmacy — and how it has performed operationally in the recent past — is critical to financing. McKesson must review at least three years of financial statements and interim statements to evaluate the loan. Financial statements should include:
 - Income statement
 - Balance sheet
 - Cash flow statement
 - Projections and/or a business plan, including background information on the principals
 - Personal financial statement
- Personal guaranty from the buyer: The buyer must personally guarantee the loan from McKesson by completing McKesson's form of personal guaranty.
- Valuation of the business: The loan amount is tied to the worth of the pharmacy. There are multiple methods of determining pharmacy valuation. McKesson Credit uses a combination of valuation methods as appropriate for each specific deal.



[Contact one of our ownership advisors](#) to learn more about McKesson's financing requirements.



Common financing and credit terms you should understand

Dating

Dating is a form of short-term financing that allows customers to pay for certain purchases beyond the terms normally offered.

Prime rate

The prime rate is the interest rate charged by banks to their most creditworthy customers. The rate is almost always the same among major banks and is therefore a practical rate for McKesson to use as the basis for the interest rate it charges on loans. Prime is variable. Adjustments to the prime rate are made by banks at the same time, although the prime rate does not adjust on any regular basis. McKesson offers competitive interest rates to those who qualify.

Promissory note

A promissory note is a legal document that the borrower must sign to get a loan. By signing this note, the borrower promises to repay the loan, with interest, in specified installments. The promissory note contains the terms and conditions of the loan, including how and when the loan must be repaid.

“Owner take-back Note”

When the seller helps the buyer by acting as a lender, the seller may finance all or part of the sale. Another term given to such seller financing is “seller carry-back” financing. The seller is carrying back part of the financing on the property being sold. Some advantages of seller carry-back financing to the seller include:

- Potential for a better price by providing financing for the buyer rather than requiring the buyer to pay up front in cash
- Deferring taxes at the time of the sale by using an installment sale (consult an attorney or CPA)
- Potential for a higher interest rate from the buyer than if the seller put the proceeds from a cash sale in the bank, a CD or a money market fund
- Receiving monthly income secured by a business that the seller understands and can monitor
- Widening the pool of prospective buyers and potential for a faster sale because of the seller financing

Learn more at: [RxOwnership.com](https://www.RxOwnership.com)

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