Financing Your Pharmacy Future

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First Financial Bank

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PHARMACY LENDING DIVISION
Member FDIC | Equal Housing Lender

QC QualityCare PHARMACIES™

What is this Webinar about?

Today, you will learn:

- ✓ What you will need to buy or start a pharmacy
- ✓ How to preform a valuation
- ✓ The Do’s and Don’ts of an Acquisition

Get to know us.

Why are we qualified?

- ✓ National Preferred SBA Lender
- ✓ 80 years of combined pharmacy experience
- ✓ Pharmacist and current/former owners on our team
- ✓ $300M+ in pharmacy loans
- ✓ Executive Partner for POLA
- ✓ Provide the same 1:1 experience you give your patients

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What do we offer?

Financing for:

- Acquisition & Real Estate
- Expansion & Remodeling
- Refinance & Working Capital
- Start up loans
- Capital needs from $400K - $5M

Community Pharmacy Today

22K
Pharmacies
(est. 1k change hands/yr)

$3.6M
Average Revenue

60K
Annual Scripts,
84% Generic

22%
Gross Profit
(lowest in a decade)

1.96
Average Stores/Owner

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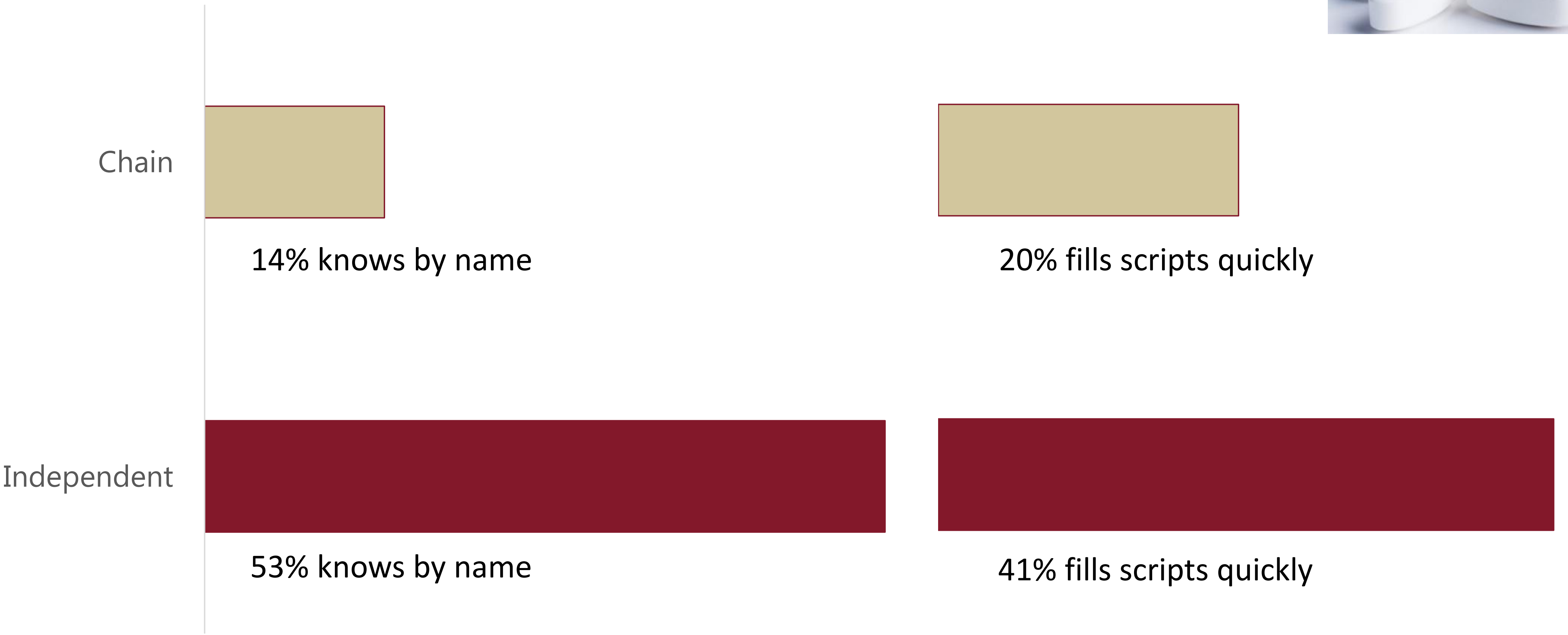
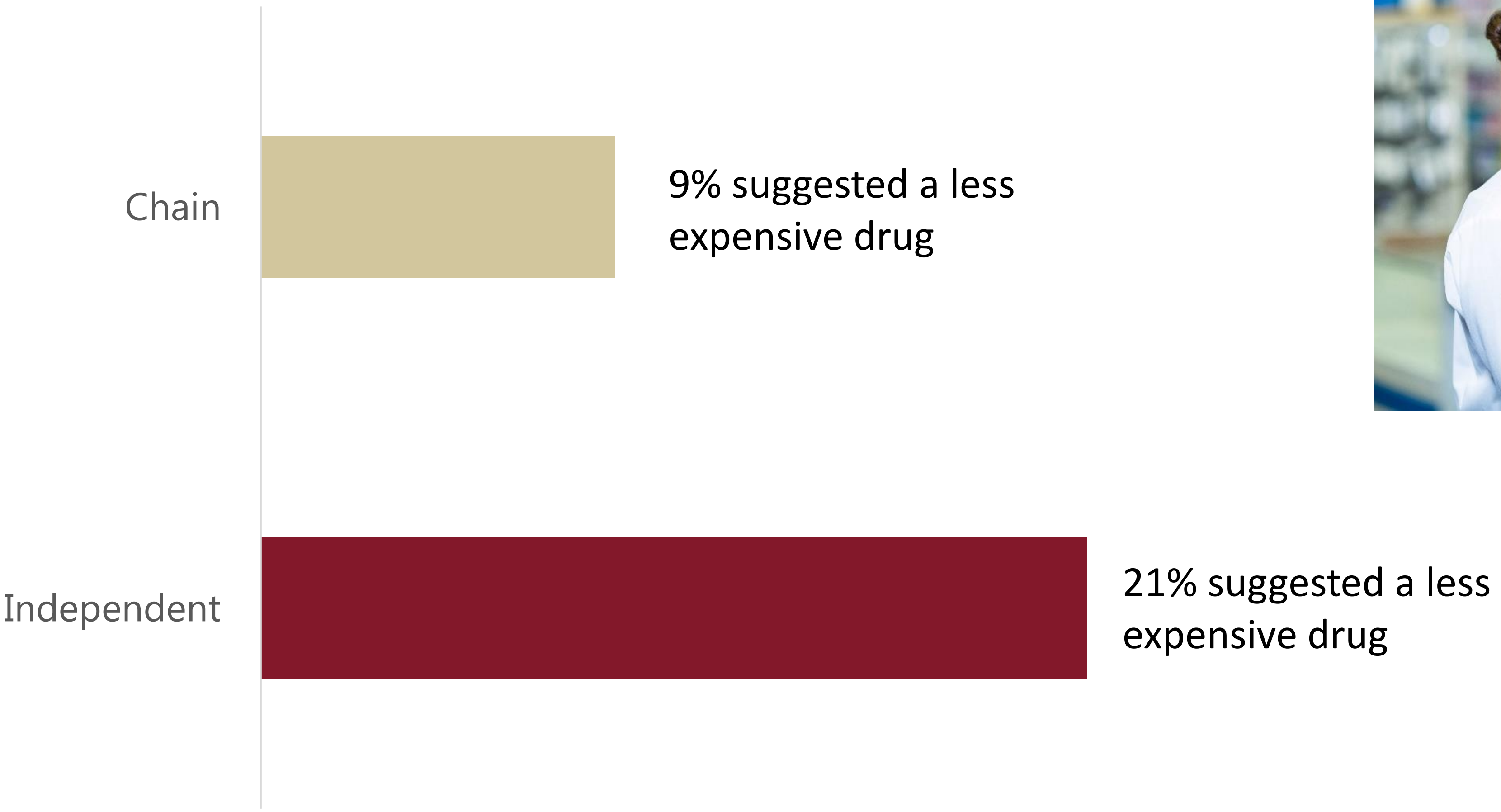
How independents compare to chains



Independents vs. Chain

“Suggested less expensive drug”



Places to Look for Opportunities

- ✓ Wholesale Account Reps
- ✓ Wholesale Transition Teams
- ✓ Buying Groups & State Associations
- ✓ Get your name out… (Visit Local Independents)
- ✓ Struggling / Aging Owners
- ✓ Word of Mouth / Relationships

Planning to Buy / Start?

Where are you willing to purchase?

Target pharmacy requirements

- ✓ Size, staffing, specialized markets/services

Who is on your team?

- ✓ Attorney, CPA, wholesaler, business partners, bank

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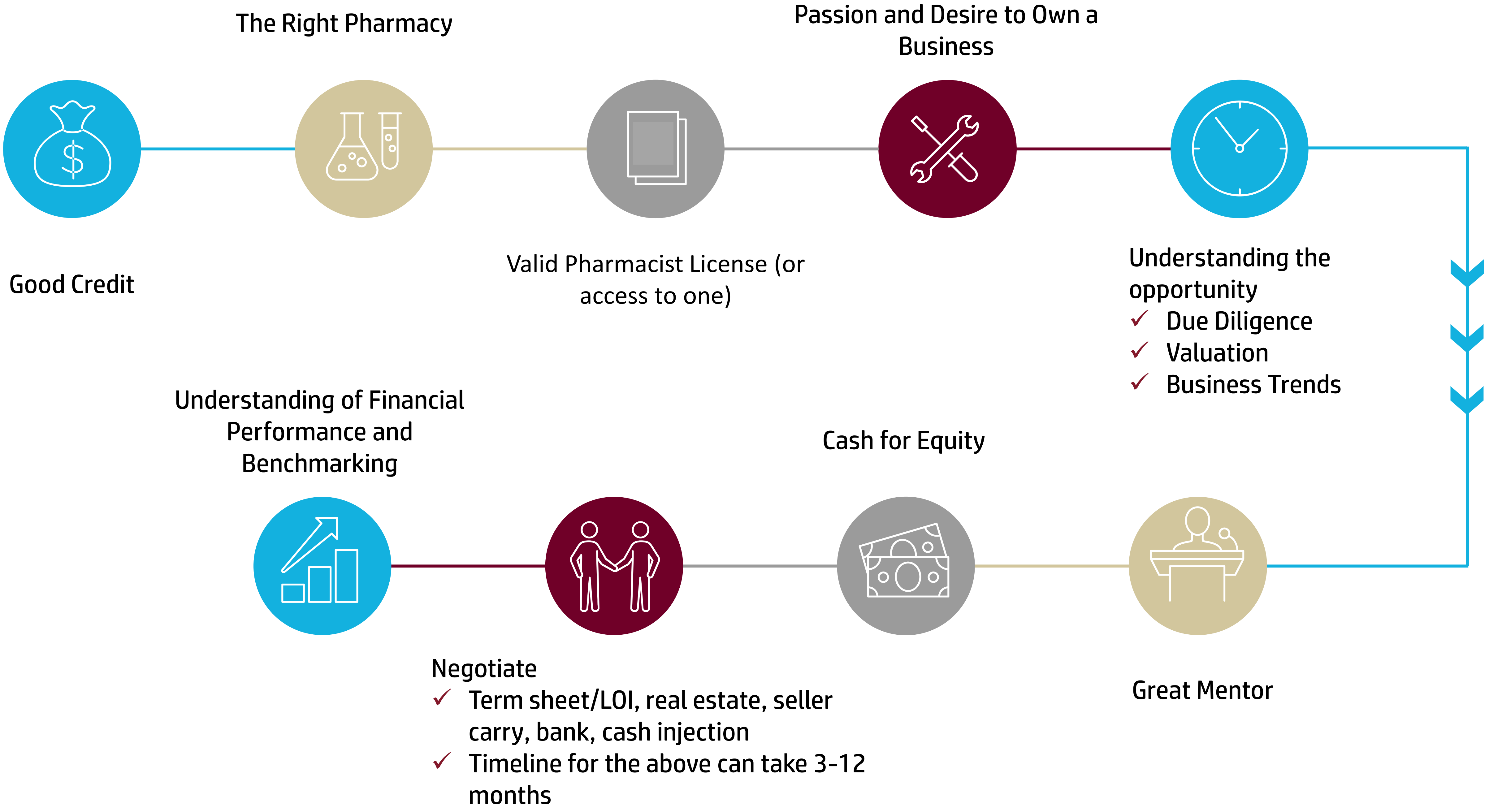
Be Prepared


Good Credit
The Right Pharmacy
Valid Pharmacist License (or access to one)
Passion and Desire to Own a Business
Understanding the opportunity
✓ Due Diligence
✓ Valuation
✓ Business Trends
Great Mentor
Cash for Equity
Negotiate
✓ Term sheet/LOI, real estate, seller carry, bank, cash injection
✓ Timeline for the above can take 3-12 months
Understanding of Financial Performance and Benchmarking

Performing a Valuation

What does a buyer, accountant, and lender need to review?

1

Three years of Profit and Loss Statements and Balance Sheets

2

Pharmacy Prescription & Profitability Reports

- ✓ Rx Sales Report (Scripts & Payers by plan Code)
- ✓ Top 100 Drugs Dispensed
- ✓ Generic vs. Brand / New vs. Refill
- ✓ Seller's cost of goods, Gross Margin logs
- ✓ Rebates, % Medicaid, 3rd party
- ✓ Ability to recast/normalize financial statements accordingly for a new customer

3

Three Years of Tax Returns

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What is the Pharmacy Worth

- ✓ What price a seller is willing to accept for the business?
- ✓ What a buyer is willing to pay?
- ✓ What a lender is willing to invest?

**All dependent upon the buyers' ability to generate a future ROI. Business evaluations need to be done.

The Pharmacy must...

- ✓ Enable a buyer to earn market compensation
- ✓ Allow for debt repayment on total project cost
- ✓ Appraise - lenders like a debt service margin of 1.3 or better

Identifying Value in a Pharmacy

Attractive

- ✓ More than $3M Revenue
- ✓ Good profitability
- ✓ Balanced Expenses
- ✓ Good staff and location
- ✓ Stable Growth
- ✓ Reasonable rent/lease
- ✓ Differentiation
- ✓ Competition

Not Attractive

- ✓ Less than $2M Revenue
- ✓ Underperforming, limited growth potential
- ✓ Overstaffed/extended hours
- ✓ Declining revenue and/or scripts
- ✓ Excessive rent
- ✓ Unfavorable Lease Terms
- ✓ Premium Asking Price
- ✓ Poor/unclear/outdated financials

Pharmacy Valuation Formulas

Multiple of Cash Flow	Percentage of Annual Gross Sales + Inventory	Dollar multiple of Annual Rx Count + Inventory
✓ (EBITDA) + inventory ✓ Market is averaging 2.5 to 4x	✓ Usually 15-25%	✓ Typical $10-$20 (chain method)

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Valuation Example

$4M total revenue, 65k annual RX

Normalized EBITDA of $315K

$145K
(last year tax return earnings)

$60K
(dep/amort)

$50K
(owner annual bonus)

$15K
(delivery vehicle…Lexus)

$45K
(spouse salary for "bookkeeping")

Option 1 (cash flow)

- ✓ $315K x 3 = $945K + inventory

Option 2 (gross sales)

- ✓ $4M x 20% = $800K + inventory

Option 3 ($/script)

- ✓ 60k x $15/script = $900K + inventory
  (60k vs 65k as not all scripts may be bought)

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Sample Purchase Structure

Asset vs Stock

- ✓ Asset most common

75-90% bank loan

- ✓ SBA lends on total project cost

10-25% equity requirement

- ✓ Combo of: Buyer cash down payment, seller promissory note

Buyer needs working capital

- ✓ Cash (savings, 401k, family/gift)
- ✓ Added to loan
- ✓ Inventory

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Pharmacy Acquisition Loan Example

Budget = $1.4M

- ✓ $945k goodwill
- ✓ $250k inventory
- ✓ $175k working capital
- ✓ $30k closing costs

Funding Sources

- ✓ $140k buyer's 10% down
- ✓ $0 seller note
- ✓ $1.26M bank note

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The Actual Transition

- ✓ Letter of Intent or term sheet
- ✓ Asset or stock purchase agreement
- ✓ Buyer to obtain a lease or purchase real estate
- ✓ POA to operate under seller's provider numbers
- ✓ Apply for necessary licenses: State Board, third-party contracting, DEA, NPI/NCPDP, NABP, Medicare & Medicaid
- ✓ Third-party inventory counting service
- ✓ Employee transition strategy
- ✓ Transfer of funds (escrow or attorney or lender)

Acquisition Do’s and Don’ts

Do

- ✓ Understand business and its differentiators
- ✓ Know current cash flow opportunity
- ✓ Leverage pharmacy experts (bank, CPA, attorneys)
- ✓ Expect the unexpected
- ✓ Budget and forecast future performance

Don’t

- ✓ Limit yourself based on what’s there – see potential
- ✓ Don’t pay for potential
- ✓ Be emotional – make a business decision
- ✓ Assume bad trends are easily fixed or good ones always continue
- ✓ Don’t get into a bidding war
- ✓ Accept poor our outdated financials

Thank You!

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