

CASE STUDY

Bank Makes Dreams of Pharmacy Ownership Affordable, Realistic, and Easily Attainable



Karen Downing
PharmD, RPh
Owner of Cape Fear Pharmacy in
Wilmington, NC

CUSTOMER

- Karen Downing, PharmD, RPh

LOCATION

- Cape Fear Pharmacy in
Wilmington, N.C.

BUSINESS TYPE

- Independent Pharmacy

CHALLENGE

- Financing purchase of
independent pharmacy

SOLUTION

- Live Oak Bank servicing loan
for 100% ownership

RESULTS

- Fast loan application turn-around time
- Accelerated break-even rate (less than one year versus industry average of 3-5 years)
- Minimal capital investment (\$25,000)
- Continuous support services throughout life of loan

Pharmacist Sees Profit 10 Months after Purchasing Independent Pharmacy

Like many pharmacists, Karen Downing, PharmD, RPh always dreamed of owning her own pharmacy, but she never thought she would be able to afford it. She first had her doubts 25 years ago, when the pharmacy climate was much less tense and profit margins were much higher.

Today, as the profession continues battling marginalized profits — which often result in independent pharmacy closures — many ambitious pharmacists like Downing see their dreams of pharmacy ownership vanishing as quickly as their disposable net revenue.

Purchasing either an existing or new pharmacy averages a price tag of approximately \$500,000 to \$1.5 million. Painfully aware of the cost, Downing could not fathom making a down payment on such a loan. Her frustrations with the industry further compounded her despondence and desire to turn the tide.

“I think owning my own pharmacy was always in the back of my mind, but I was always scared to the pull the trigger. I was like everybody else where I needed the cash to do it,” she said.

Downing had worked in a variety of pharmacy practice settings during her career: As a pharmacy student, she completed four externships with the Indian Health Services in Alaska. Post-licensure, she worked as a hospital pharmacist and later served as the director of pharmacy for a small hospital. She then spent the last half of her career working for a big box pharmacy.

“I had gotten to the point where, at the end of that 12 years, I was considering leaving pharmacy altogether. I was done. I’d lost my soul,” she said. “I was struggling because I couldn’t practice pharmacy the way I felt pharmacy needed to be practiced. It wasn’t about community anymore.”

But a fateful encounter with an independent pharmacy owner seeking to retire changed Downing’s fate. Soon, Downing found herself working at Cape Fear Pharmacy in Wilmington, North Carolina.

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“If money is holding you back, don’t let it. That is the easy part. Live Oak Bank makes it simple.”



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The veteran pharmacist took another leap of faith by attending a national pharmacy conference where Live Oak Bank presented to small business hopefuls and current pharmacy owners. The speakers impressed her with their knowledge and handle on the industry.

Then, in February 2016 — a year and a half after her chance meeting with the owner of Cape Fear Pharmacy — Downing purchased the pharmacy in her hometown with 100% ownership.

Live Oak Bank Default Rate One of the Lowest in the Industry

Live Oak Bank, a financial lending institution based in Wilmington, North Carolina, specializes in servicing loans for small businesses nationwide. Founded in 2008, the lender originally serviced veterinary practices but has since expanded its clientele to include niches such as agriculture and healthcare. It began servicing pharmacy loans in 2010.

The institution’s boutique agency environment grooms businesses for success throughout all phases of the loan — from pre-acquisition, business inception, and continuation — for the life of the loan.

Live Oak Bank works with its borrowers to ensure they have enough capital to operate their businesses for the first 28 days after opening.

“You’ve got your capital as a cushion on a daily basis, assuming no money coming in,” Downing explained. “In essence, that is still your money. That is your working capital, so if you look at your money — your investment — as being part of the working capital, then it really isn’t a down payment. That’s your working capital to take care of business on a daily basis,” she said.

Live Oak Bank also boasts one of the lowest default rates in the industry. Downing partially attributes this to the institution’s tenacious front-end market research and ongoing client support mechanisms to help small business owners get off to a strong start.

“The thing that stood out to me the most was their foreclosure rate. It’s minimal,” Downing said. “It is because of the support in them doing the due diligence to make sure the numbers work. They look at your numbers. ‘Hey your payroll is too high. You need to trim this down a bit.’ That’s really the main reason I chose them — their support mechanism.”

Another distinguishing feature is the strong pharmacy experience Live Oak team members bring to the table. All the managers in the pharmacy department are pharmacy industry veterans whose backgrounds include pharmacy management, pharmacy distribution, and pharmacy ownership. In fact, one manager currently owns two pharmacies.

Many pharmacy owners seeking to sell their businesses contact Live Oak Bank in advance, and the institution helps individuals interested in pharmacy ownership identify pharmacies for sale. However, despite the obvious conveniences, Downing recommends people looking to buy a pharmacy scope the market and area first.

Finally, Live Oak Bank also invests in future pharmacists. It offers summer programs where pharmacy students can spend a week onsite to learn about the various aspects of pharmacy business and entrepreneurship.



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Minimal Capital Investment, Average Loan Processing Time of 47 Days

Downing used part of her 401(k) to finance her initial capital investment.

“You think, ‘There’s no way I can get a down payment on a loan of that size.’ You really don’t need that much money out of pocket. I took some money out of my 401(k), and I had enough so that I was good enough to go,” Downing explained.

With a personal investment of \$50,000, Downing closed on the pharmacy.

The average processing time for a loan at Live Oak Bank is 47 days, and Downing says her turnaround time was expanded due to a major personal setback: Her father passed away. As a result, her application took about 6 months to complete, but her situation is a major outlier from Live Oak Bank’s norm.

Pharmacy Sees Profit in 10 Months Despite \$200,000-a-Month Wholesale Invoices and \$14,000-Monthly Loan Payments

Downing’s wholesale invoices average approximately \$200,000 per month. She utilizes Epic Rx as her group purchasing organization (GPO), which reconciles and expedites third-party payment processing. Updates regarding which claims have been paid arrive daily in her inbox. By utilizing a GPO such as Epic Rx, Downing receives payment from some third parties in as little as three weeks. The slowest payers take up to 90 days.

Downing’s monthly loan premium falls just below \$14,000, and she is on-track to pay it off in 10 years.

As of December 1, 2016, Downing has already cleared the break-even point and anticipates a profit, when it takes most independent pharmacy owners three to five years to see a return.

However, in addition to her support from Live Oak Bank, Downing feels having acquired an existing, well-maintained store in a high-profile area contributes to her exponential return rate. By acquiring a pre-existing pharmacy, she inherited a strong customer base.

Working in the pharmacy prior to purchasing it also gave her a first-hand opportunity to assess the store’s strengths, challenges, and business model.

Downing believes another important success factor for independent pharmacy ownership is the ability to review claims and examine which payers have lower reimbursement rates or negative returns. Based on her findings, Downing negotiates with patients and prescribers to find suitable alternatives that improve her reimbursement rates without compromising patient outcomes.

After finally realizing her dream 25 years later, Downing believes her experience offers hope to others doubting their ability to own a pharmacy.

“The most important thing I can say is: Do not think you can’t do it. You can do it. It is not as difficult as you may think it is or as out of reach as you think it is. By no means is it an easy process. It involves a lot of work and a lot of time, but it is time well-spent. It’s time you’re investing in yourself, in your future. It’s an opportunity to make your own ideas a success instead of someone else’s.”



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