

# RAISING CAPITAL

By Lin-Nam Wang

*This article looks at loan guarantee schemes offered by wholesalers to help pharmacists raise money to buy a pharmacy*

**S**o you have decided that you want your own pharmacy. And why not, if you believe that you have all the necessary attributes and you are prepared to work long hours, for uncertain returns? But even if you are confident of your ability to run your own business, getting the finance in place to buy that business can be a major hurdle. Although some banks offer special loan packages to doctors and dentists for setting up their own practices, most do not make similar provision for pharmacists wishing to own a pharmacy. Moreover, clearing banks are unwilling to lend against the goodwill asset of a pharmacy business and, traditionally, loans were only given on the basis of tangible assets. This meant that potential pharmacy owners had to find a sizeable part of their capital elsewhere. Although clearing banks did not understand the pharmacy business enough to loan against goodwill, pharmacy wholesalers did and, in 1972, UniChem Ltd was the first pharmacy wholesaler to introduce a loan guarantee scheme.

Nowadays, many large wholesalers offer loan guarantee schemes. For example, the Phoenix pharmacy loan guarantee scheme has covered over £18m worth of loans in the past 12 months, half of these for first-time buyers. Statim Finance Ltd (a subsidiary of AAH Pharmaceuticals Ltd) has 715 loans outstanding, worth £181m. Loan guarantees are available for a number of purposes, including shop refitting.

In return for being allowed to use the wholesaler's financial strength to get funding that might otherwise have been unavailable, the new business must usually agree to purchase a percentage of its stock from the wholesaler. The table on p582 sets out some of the terms and conditions of four loan guarantee schemes, offered by Mawdsley-Brooks & Co Ltd, Phoenix Healthcare Distribution Ltd, Statim Finance Ltd and UniChem Ltd. It is worthwhile to shop around to find a scheme that will most suit your needs and expertise. For example, not all schemes offer to guarantee the full purchase price. David Cole, managing director of Phoenix, told *The Journal* that his company offers a tailored service, hence there is no ceiling for the amount of the loan guaranteed. Signing up to a particular scheme may also make your business eligible to use other services provided by the wholesaler. For example, UniChem customers can take advantage of its business and financial support services, eg, insurance, tax and payroll services.

Wholesalers will also have different approaches to the acquisition process itself. For example, Robert Andrews, director, Statim Finance, told *The Journal* that Statim has someone dedicated to helping pharmacists

to put their business plans together. Similarly, Mawdsleys offers a programme to help potential buyers locate a business, prepare a business plan, negotiate the purchase, arrange finance and advise on the management of the business after its purchase. Its commercial advisers will work with the buyer to analyse the business and prepare financial forecasts and long-term business plans — a programme that less experienced entrepreneurs would probably find useful. In contrast, UniChem does not provide the buyer with this sort of programme. "It's important that buyers do the work, so that they fully understand the business they're getting into, including the area, the marketplace and the competition," John Jaquiss, controller commercial support at UniChem, explained. Buyers need to be able to explain the business to us, he added. However, UniChem will introduce prospective buyers to the UK200 group of chartered accountants, which has a specialist health care sector. "It's important that buyers get the right advice at the outset. When you start in business, it's really important who you speak to. Buyers need to get someone who understands pharmacy — normal accountants may not," Mr Jaquiss said. UniChem also keeps a register of pharmacies for sale.

## A NEW TYPE OF OWNERSHIP SCHEME

At the end of last year, Numark Plc launched a new type of ownership scheme that enables pharmacists to set up their own business as a body corporate. Half the acquisition is funded through share capital and the other half is loaned from Numark (or a bank, the loan being guaranteed by Numark) to the new business. The pharmacist would act as the superintendent pharmacist, employed by the new business, as well as being a director of the business.

The share capital of the business would be split — the pharmacist owning 49 per cent and Numark owning the other 51 per cent. This means that the pharmacist may need to take out a personal loan to finance his 49 per cent. This could be secured on the share in the new business itself (Numark has an



Numark's concept pharmacy

arrangement with HSBC for interest at 1.25 per cent above base rate), but the pharmacist is expected to invest at least £10,000 by way of a deposit.

The loan to the business is repaid out of operating profits (80 per cent pays off the loan and the remainder is paid as dividends to shareholders. After five years, the pharmacist has the option of buying out Numark and is given a 50 per cent discount on any goodwill accumulated. Depending how you look at things, it could be either a benefit or disbenefit that the pharmacy has to be refitted and, to some extent, run according to the Numark concept, although there is flexibility for local input. Another condition is that 90 per cent of the business's goods are to be sourced through authorised Numark wholesalers. However, according to Clive Stanley, retail controller at Numark, terms are negotiated by Numark to the pharmacy's benefit. Mr Stanley said that one of the biggest advantages of the scheme is that the pharmacist is putting far less of his or her own money at risk. However, this means that any rewards will also need to be shared. Other benefits include a free merchandising service and accounting support as well as monthly special offers.

Since its launch, the scheme has not delivered any new pharmacies, but this was because Numark was waiting for the outcome of the Office of Fair Trading report, said Mr Stanley. Numark currently has four potential purchases going through, but there are more people wishing to sell and over 80 potential business partners. Pharmacists interested in the scheme can either approach Numark with a suitable pharmacy (ideally one with an annual turnover of £400,000 to £650,000) or can register their interest with the company, which will then match the pharmacist to a pharmacy in the area of his or her choice. Application forms can be obtained by telephoning Amanda Haddock or Lis Parker at Numark (01827 841200).

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SOME TERMS AND CONDITIONS OF FOUR LOAN GUARANTEE SCHEMES



<b>Maximum loan available</b>	80 per cent of the total loan, and up to 100 per cent of the purchase price if buying a second or third pharmacy	No maximum	Normally 80 per cent of the cost of the project, but 100 per cent finance may be available for subsequent expansion
<b>Who can apply?</b>	Sole traders, partnerships and limited companies are all eligible to apply	Sole traders, partnerships and limited companies are all eligible to apply	Anyone can apply as long as they are a pharmacist, or pharmacy related business registered with the Royal Pharmaceutical Society
<b>What interest rates are available?</b>	A maximum of 1.25% over base rate	0.85 to 1.5 per cent above base rate, depending on personal circumstances and financial institution	1 per cent over interbank rate (this has been less than base rate over recent months)
<b>What type of repayments are available?</b>	The loan can be repaid over 10 years, but this can be extended if the loan is for a pharmacy freehold	The loan can be repaid over a term of one to 10 years	Monthly repayments over a maximum of 10 years
<b>How long do you have to wait for a decision once you have applied?</b>	A response is usually given within five working days, if all relevant information has been provided	One to two weeks	The applicant will normally receive a response within five working days of receipt of the application
<b>Is there a fee for arranging the loan?</b>	Bank fee (£1,250 maximum) plus Statim fee (£1,250 maximum)	No fee	There is a finance fee of 1 per cent of the loan, to a maximum of £1,000
<b>What conditions are attached to the loan guarantee?</b>	An ongoing trade agreement to purchase 70 per cent of goods from AAH group companies (includes Enterprise and Trident)	The pharmacy must buy not less than 70 per cent of its stock from Phoenix	70 per cent of all goods that can be supplied by the group must be purchased from UniChem
<b>Is there a penalty if the loan is settled before its term?</b>	No penalty unless the loan is subject to a fixed or capped rate agreement	No penalty	There is no penalty as long as the loan is repaid on the monthly payment date
<b>Other benefits?</b>	Reduced bank charges, car loan scheme, commercial insurance services and marketing and merchandising support through the Vantage scheme	Reduced bank charges with some banks. Help to find a business for sale and evaluate it and ongoing support after the sale is completed	Other business and financial support services available, eg, insurance, tax and payroll services and 0.25 per cent rebate off interest paid
<b>Whom to contact</b>	Lynne Stubbs, Sapphire Court, Walsgrave Triangle, Coventry CV22 2TX. Tel 024 7643 2000. Applications can be made via AAH salesforce. Further details at <a href="http://www.statimfinance.co.uk">www.statimfinance.co.uk</a>	Phoenix representatives or Julie Deakin, Sales Controller, Phoenix Healthcare Distribution Ltd, Rivington Road, Whitehouse Industrial Estate, Runcorn, Cheshire WA7 3DJ. Tel 01928 750 648	Commercial Support Department, UniChem Ltd, UniChem House, Cox Lane, Chessington KT9 1SN. Tel 020 8391 7107. Further details at <a href="http://www.pharmology.com">www.pharmology.com</a>