

Current Condition of the UK Pharmacy Market

From the UK's leading independent pharmacy transfer agents

Over the last 12 months we have seen a substantial increase in the number of pharmacy owners deciding to sell their business. Overall we have experienced high levels of activity from both sellers and buyers throughout the year as many of the pharmacies that have come to the market have provided some excellent opportunities to acquire, particularly for First Time Buyers. Indeed 78% of the new buyers who have registered with us have been First Time Buyers which demonstrates their appetite in the market place, even in the face of the funding cuts that have impacted the sector.

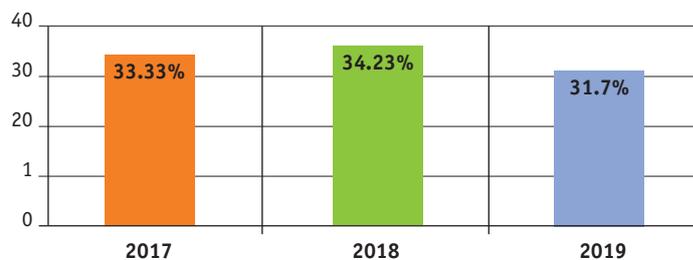
Many of the opportunities have come from the Multiples such as Lloyds, Rowlands, Co-Op and some independent groups divesting geographic outliers and smaller branches where profitability has slipped. These opportunities have proved to be attractive to perhaps the smaller more nimble owner/operator keen to step in and quickly improve both the turnover & performance as well as strategic purchases for more experienced and established operators.

Whilst the average Pence in Pound achieved on completed UK sales has fallen from £1.13 in 2018 to 0.92p in 2019, Scotland has continued to buck the trend seen elsewhere with an average figure of £1.33.

In our opinion this is due to a combination of a low supply of sellers in the marketplace and comparatively high levels of sector support experienced in Scotland as evidenced by the recent announcement of an additional £10 million awarded to NHS Scotland to cope with seasonal winter pressures.

In Wales we have seen more recently a downward pressure on values achieved, similar to England which has been a little more surprising given the perceived greater support for Community Pharmacy from the Welsh Government. This perhaps has been down to gross margin pressures and the sector looking across the border to England which has suffered funding cuts, wary of the same.

Average Gross Profit %
2017 – 2019



Average Pence in the £
2017 – 2019



Biggest Challenges for Community Pharmacy in 2019

Many of our clients decided to sell in 2019 due to the new proposed 5 Year Community Pharmacy Contract Framework which has for many operators required an onus to re-focus their existing business to one which is more service provision led. With the focus historically on dispensing volume this is contrary to how many owners have operated their business over past years and they therefore felt that a new owner may be better positioned to undertake the

changes and take the business forwards. Other factors of note have been pressure on margins due to the impact of the cuts, shortages in the supply of certain drugs and the increased burden of administration which has included legislation around the Falsified Medicines Directive, GDPR, Auto Pension Enrolment, overhaul of GPHC Inspection processes and Emergency Supply regulations to name but a few.

Main issues facing the sector in 2020

Looking ahead to the forthcoming year it is anticipated that there could be a number of new and existing challenges for the pharmacy sector. The new Pharmacy Contract presents both an opportunity and a potential threat to sellers depending on their outlook and plans for the coming years. Many of the more experienced buyers we are speaking to have indicated to us that, as the contract provides more certainty for the future, their intention is to come back into the market in 2020 with renewed vigour and anticipation.

As part of the greater focus on a service led sector with the introduction in October 2019 of the Community Pharmacist Consultation Service (CPCS), many owners have been required to undertake changes to both staffing and training in addition to cosmetic shop changes to ensure the provision of a Consultation Room to name but a few. These changes have been evidenced by higher average staff costs incurred including locum pharmacist rates particularly for those pharmacies operating in rural or less populated areas. In addition to this there is the forthcoming minimum wage increase due 1st April which will add further pressure.

It is understood that CPCS may also be extended in the future to include GP referrals to community pharmacy which have been in pilot and it is anticipated that additional services should be on offer for 2020/2021 and beyond.

The threat of further pharmacy closures is expected to remain a continuing issue. According to Government figures a total of 103 pharmacies closed in 2018/2019 while only 38 new pharmacies opened. With the new contractual changes required of owners many of the smaller turnover pharmacies may decide it just isn't viable for them to continue trading and either look at consolidation options (of which we have seen more discussions taking place) or, in the worst case scenario, total closure.

Whilst individual Banks appetite for lending may wax and wane, generally speaking there has been little change for most in terms of their policies and lending criteria and overall the major lenders continue to support funding in the pharmacy sector which is vital in order to maintain the market and pharmacy re-sale values.

It is inevitable at some point that the volume of pharmacies for sale will start to diminish as we saw a decrease in the number of pharmacies coming onto the market in the last quarter of 2019. With many buyers advising us of their continued appetite to acquire in the coming year it is not unreasonable to predict greater stability in goodwill values in 2020.



Anne Hutchings
Managing Director

Would you like to know what your pharmacy is worth in the current market place?

Would you appreciate a call or private meeting to discuss your options?

These are services we can offer you free of charge and with no obligation.

For more information, please call **Anne Hutchings** on **01494 722 224** or email anne@hutchingsconsultants.com

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