



# London & Greater London Pharmacy Market Update (July 2020)

From the UK's leading independent pharmacy transfer agents

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2020" to discuss your **FREE and confidential valuation.**



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## What our clients say about us...

"If we had not have come to Hutchings, we probably would have accepted a lower offer as we didn't know the true value of our business. Having an agent with the experience and expertise helped us gain nearly £500,000 more. There is no way we could have done this on our own."

**Mrs F Akinwumi & Mr O Olojede,**  
**Herbert Pharmacy, London**

Hutchings Consultants' business is that of pharmacy brokers and valuers. The pharmacies, which they sell, value and act as sales agent for, typically range from £300,000 turnover for single shops, through to groups with turnover reaching £100M. The Firm deal exclusively with pharmacies and as such are true experts in this field. Hutchings Consultants are also recommended by the NPA to its members for all matters relating to the selling and buying of pharmacy businesses across England, Wales, and Scotland. They are currently the only NPA partner supplier to reach Platinum Status.

# The Current Market

**Author: Paul Steet**  
Senior Pharmacy Consultant

Undisputedly, in a very short space of time, the COVID- 19 pandemic has created tumultuous challenges across the whole of the United Kingdom, particularly in respect of the provision of healthcare. Pharmacy teams through-out the London & Greater London area have been at the forefront of continuing to care for patients under both difficult and risky operating conditions. The arrival of the virus and the resultant Government instructed lockdown has created a significantly different trading environment compared to that seen prior to this period which has led to many contractors, who may be considering selling, asking how the pharmacy sales market in London has been affected?

Even through lockdown, and in line with the wider UK pharmacy sales market, Hutchings Consultants have continued to experience both a positive and increasing demand to acquire in the London area from a wide range of buyers including First Time Buyers, individual owners and previous owners who have sold, in addition to current owners seeking to add to their existing portfolios as and when the right opportunities arise. We have also noticed an increase in new buyer registrations from Investors outside of the healthcare sector who recognise the relative stability that pharmacy businesses offer.

Most independent regional group owners have remained in the market, albeit taking a much more considered and strategic approach to the opportunities they choose to look at. As for the large Multi-nationals, following a particularly quiet period in terms of buying activity over the last few years (as most sought to consolidate trading positions and



reduce operational costs) one or two are beginning to show some early signs that they are considering acquiring again, although this is yet to result in any submission of offers at this point in time.



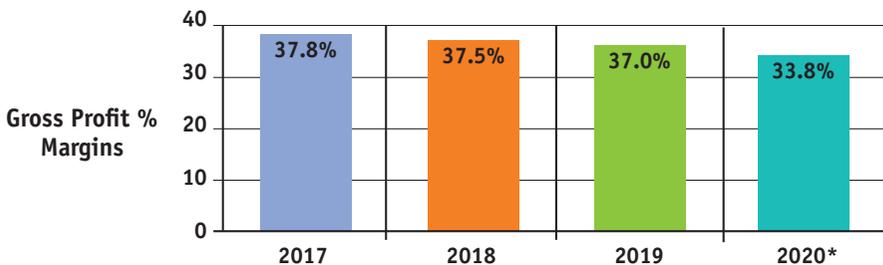
Buyers who require Bank borrowing are generally finding the level of support for the pharmacy sector has continued unabated from lenders though we understand that Bank credit and underwriting teams are reviewing loan applications and business plan proposals more stringently to ensure that there is sufficient capacity to cover all borrowing repayments adequately. Coupled with unprecedented demand for Covid related grants and borrowing from other business sectors there has inevitably been a resultant increase in the time taken to process loan applications which has had a knock on effect to sale completion timescales. Looking forwards, we hope to see an improvement in Banks performance as more staff return to operational duties.

Another important factor which continues to affect sale completion timescales has been the temporary suspension of the Market Entry process by PCSE on 25th March 2020. Although work re-commenced on the 1st June 2020 there is an inevitable backlog of existing applications to clear for both Fitness to Practice and Change of Ownership which are taking noticeably longer to be completed. These applications primarily tend to impact Asset sales which currently comprise a smaller percentage of the overall volume of transactions in the pharmacy sales market.

# Profit Margins

Gross Profit Margins in London & Greater London have remained fairly consistent since 2018 at around 37%. However, as evidenced in the graph below the margin has reduced to 33.8% in the sales that have completed or been agreed so far in 2020 .The most recent data includes a fairly small percentage of pharmacy sales with a significantly lower margin which if excluded suggests a more accurate figure of 35.9%.The main reason cited for this reduction has been significant drug pricing and supply issues encountered over the last 12 months, together with a number of incidents of loss making dispensing on specific items, overall placing financial pressure on contractors. The COVID 19 pandemic has exacerbated this situation further due to increased demand and subsequent wholesale prices which have created well-publicised cash flow issues for many pharmacies. This has been alleviated to an extent by the Advance Payments, Is the most recent Advance Payment still the £20m paid at the start of July? This payment has increased the overall sum of wider COVID-19 related Advance Payments to £370m which, unless there is a change in the current policy, will ultimately be clawed back at some point in the near future. As a result of this many contractors have decided to place a greater emphasis going forwards on researching and securing more favourable purchasing arrangements from existing or new suppliers wherever possible.

The table below shows the consistency seen in average yearly figures since 2017.



\*sales agreed and completed so far

# London & Greater London

## Goodwill Prices

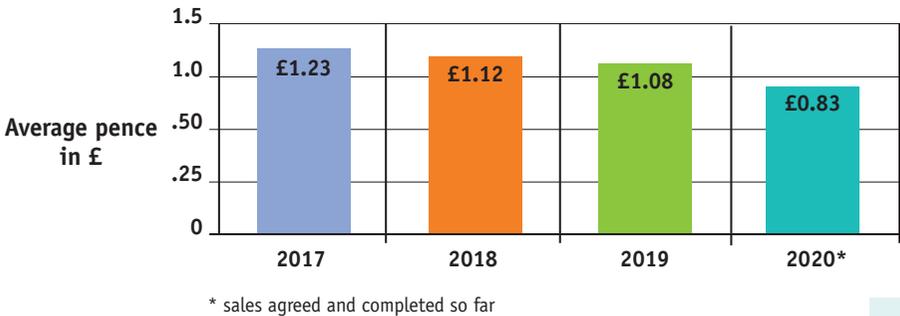
In comparison to other regions around the UK, pharmacies in London & Greater London have historically achieved higher Pence in Pound values mainly due to the large concentration of potential buyers located in or around the capital. More recently, Goodwill values have come under pressure (as evidenced in the table overleaf) partly due to the increased volume of pharmacies which have entered the sales market over the last 12-18 months. The large nationwide multiples have continued to sell off less profitable shops as have many of the regional Group owners as part of an ongoing efficiency drive. These numbers have been bolstered by individual owners who have decided to retire and allow a new owner to adjust the business accordingly to meet the requirements of the CPCS service-led contract. Many of these pharmacies have been lower than average turnover businesses which have allowed an opportunity for First Time Buyers to gain a foothold in the market but have skewed the average figures seen in comparison to recent years.

Health Centre based pharmacy Goodwill values have also come under increasing pressure as many potential buyers have placed a greater emphasis on profitability and as a result have carefully calculated the value of incurring higher lease and premises costs when faced with the advent of EPS. Other factors for buyers shying away from health centre businesses include change in patient practices, increased uptake of EPS and willingness to meet patient expectations to deliver, a desire to focus more on services (which can be easier when not inside a health centre as Drs can compete) and stronger OTC potential which can add scope for increased profitability at a time when profits have been under pressure. This has led many buyers to either reflect the increased costs in any offer they make or choose to turn their attention to equally profitable alternatives with lower premises associated overheads. Despite the increased pressure on values, overall health centre pharmacies, particularly high volume dispensing opportunities, still tend to be highly sought after by the market.

Although the following table suggests a significant fall in Pence in Pound values since 2019, if we exclude a number of the smaller turnover,

less profitable pharmacies (or even loss making in some circumstances) the true average figure is around £1.01 which provides a more realistic scenario for operators of an average sized pharmacy business.

Due mainly to a delayed market reaction to the cuts and an increased supply of pharmacies for sale which has created a more competitive environment for sellers, due to wider buyer choice, we have seen an inevitable reduction in the EBITDA multiplier from an average of 10.4x in 2019 to 7.8x in 2020 so far. As a result of this our recommendation to any seller keen to secure a buyer is to set a realistic initial asking price in order to encourage early interest from the market. Once initial interest is generated, it is often possible to command a higher price through competitive bids to secure the opportunity.



## Market Predictions

Without doubt the COVID-19 Pandemic has created what is hoped to be short term funding, trading and operational issues but overall pharmacy has shown what a resilient business model it is in comparison to many other parts of the economy which have ceased trading altogether during the period of lockdown. Indeed, we have seen this evidenced in the increased number of investors registering to buy in the last few months who have turned their attention to healthcare as a way of minimising risk in their overall investment strategy. Whilst we are yet to see the full economic and social impact of this pandemic, banks have confidence in the sector as an investable proposition which again should provide encouragement to buyers.

It is extremely difficult to predict medium to long term pharmacy values but in the short term we expect a stabilisation of pence in the pound values achieved at current levels, with an outlying possibility of a slight upward pressure felt, due to the combined 'Covid effect' and less supply of pharmacies for sale. Recent events have shown the importance of pharmacy as a key component in the effective provision of healthcare to the nation which it is hoped will continue to be reflected in future funding decisions for years to come.

## Maximising Your Goodwill Value

The key aspects that will help and contribute towards a seller achieving a higher goodwill value when they come to sell are;

- Being in the right turnover range – if your business covers the middle ground of the market, with a turnover between around £800,000 - £1,200,000 which is at a level that is accessible to both first time buyers and yet attractive to larger group operators the more competitive bids you are likely to see.
- Having the right balance of income streams – ideally your pharmacy business income should be predominantly NHS, rely on a spread of surgeries and have limited income from nursing or care homes and drug addicts.
- Having room to grow – if you have maximised every possible opportunity for growth in the business then you leave nothing for an incoming owner to improve on. This can be viewed as a negative by most potential purchasers who will want to add value and make their own mark on the business.
- Reasonable overheads – if you have committed to high property expenses, staff or maintenance contracts this takes future profitability away from a new owners' pocket and leaves them with the task of trying to address these matters where possible which can be costly and unattractive.
- Being in the right location – size of the local patient & customer base, potential for growth, good transport facilities, minimal pharmacy competition and distance from G.P surgeries are some of the many factors considered by potential buyers when evaluating a business opportunity.

- Profit margins – you need to be able to present the business in its best possible light showing a strong margin and a good bottom line.

## Taxation

You may think you qualify for Entrepreneur's Relief (ER) meaning that you will only pay 10% tax on the gain you make when you sell your pharmacy. However, there are circumstances when you may not qualify for ER, for example, when you are trading through a limited company which has other assets or investments besides the pharmacy. If you think this could apply to you, make sure you identify the problem and take action before you sell your pharmacy to ensure you qualify for ER.

If you would like us to look at this for you then please send us a copy of your latest accounts which we can study and then tell you if we identify any issues. All information you send to us is, as always, treated in the strictest confidence.

ER has been costing the Government billions, which is significantly more than the few hundred million that was initially budgeted for. In the last few years there's been much speculation about the future of ER with many organisations calling on the Government to either abolish or scale down this tax relief.

In the last budget, the Government changed the name of ER to Business Asset Disposal Relief (BADR), and reduced the lifetime limit from £10M to £1M, meaning the relief is now only available on the first million pounds of gains on the sale of your pharmacy.

It is possible that the government will introduce further changes to the relief or that they may abolish it completely. To put this in perspective, under current legislation if you made a gain of £1m on the sale of your pharmacy and you qualified for BADR you would only expect to pay tax of £100K (10%). However, if ER is scrapped your tax bill could soar.

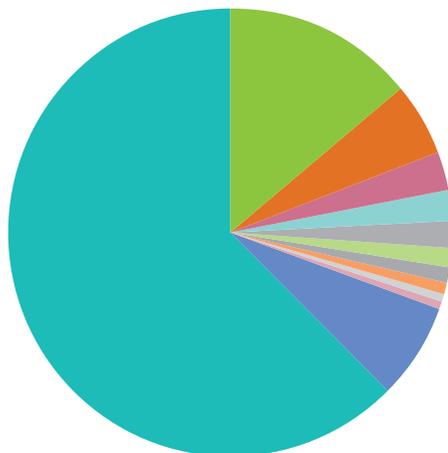


# Breakdown of London & Greater London Pharmacy Owners

As demonstrated by the table below, there has been a 0.1% reduction in the overall number of pharmacies since 2017. Perhaps unsurprisingly the reduction in the number of pharmacies owned by the National Multiples has been nearly matched by the increased number of pharmacies owned by smaller independent contractors.

Size Category	LND 2017	LND 2018	LND 2019	LND 2020
National Multiple (100+)	690	662	668	667
Regional Multiple (10-99)	152	159	149	151
Independent (1-9)	1326	1344	1349	1348
<b>Grand Total</b>	<b>2168</b>	<b>2165</b>	<b>2166</b>	<b>2166</b>

- 306 Boots
- 115 Lloyds
- 58 Day Lewis
- 49 Tesco
- 43 Superdrug
- 30 Well
- 21 Asda
- 21 Paydens
- 0 Sainsbury's
- 11 Rowlands
- 10 Morrisons
- 3 Cohens
- 151 Regional Multiple (10-99)
- 1348 Independents (1-9)



**Grand Total Wales 2166**

Source: Precision Marketing Group

## What our clients say about us...



I would recommend Hutchings as they will guide you through the whole process



**Mr M Kotecha, Kotecha Pharmacy, Stanmore, Middx**



# HERE'S WHY NPA MEMBERS ARE THE BEST SUPPORTED INDEPENDENT PHARMACIES

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As a not-for-profit organisation, all proceeds generated by the NPA are invested back into services and resources for NPA members.

**That's why the NPA can offer so many benefits.**

To view all the NPA member benefits visit  
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To join the NPA call **01727 795 914**





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