



Current Condition of the UK Pharmacy Market

From the UK's leading independent pharmacy transfer agents

COVID 19 remains the predominant factor for all of us as we make our way into 2021, particularly with the latest lockdowns. For pharmacy operators, in many cases it's resulted in increased workloads and dispensing volumes, adding to the usual winter rush as flu jabs kicked off before Christmas. Some Pharmacy owners chose to delay selling in 2020 so that they might do their part providing an essential service for the community in what is arguably one of its greatest times of need post-war. It was also an opportunity to take advantage of increased revenue levels, while Advance Payments from NHS provided some needed relief on financial pressures. This resulted in less Pharmacies coming to the market throughout 2020 than might otherwise have been seen, but many that did approach the market demonstrated an improvement in their turnover and item levels towards the end of 2020.

A large percentage of the sales market continues to be driven by the smaller turnover, less profitable pharmacies which nonetheless, throughout last year attracted a higher average number of offers per sale compared to the previous 12 months, demonstrating the increased demand seen for pharmacy businesses since the pandemic began. The Multiples continued to trim their portfolio of branches last year as part of an ongoing cost reduction strategy, allowing buyers an opportunity to gain a foothold or further expand their existing portfolios.

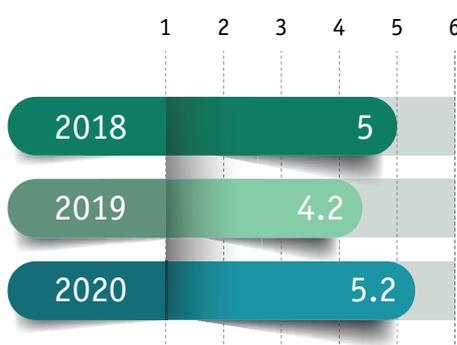
Buyer registration numbers were substantially up during the first lockdown in March 2020 and remained so

throughout the rest of the year. Overall, we saw a 45% increase in new buyer registrations compared to 2019 sending a positive and reassuring message to those who might be considering a sale. 75% of these new registrants were First Time Buyers (many with substantial cash deposits). 15% were existing Pharmacy Owners, eager to add to their existing branches and capitalise on the positive effects the pandemic might bring to the sector in the long run. Investors & Private Equity were another notable sector that grew in size, along with group owners - keen to add pharmacies to their portfolios or diversify their investments respectively.

The uplift in buyer demand resulted in higher offers and prices agreed through 2020 than might have been the case otherwise. Compared with previous years, sellers through 2020 saw an increase in the average multiple of bottom line profit adopted by their buyers, what we refer to as the EBITDA (Earnings Before Interest, Taxes, Depreciation & Amortisation) and which is the principal method of pharmacy valuation. This key indicator demonstrates the positive effect that increased numbers of buyers competing for each pharmacy opportunity can have.

Pharmacy owners also wisely invested in their business by improving or at the very least maintaining their Gross Profit Margin. The average GP % Margin which over past years had been in decline, appears to have now stabilised through 2020 at 31.7%. A reassuring note to end the year on.

Average No of Offers Received Per Sale



Average Multiple of EBITDA Achieved



Community Pharmacy through 2021

2020 presented many challenges to Community Pharmacy, all of which were managed with great enthusiasm and professionalism from the sector, and as a result many contractors received messages of appreciation from the communities they serve and humbling offers from community volunteers. The provision of suitable PPE equipment for employees, creating Covid secure environments for staff and pharmacy visitors alike, ensuring adequate staff cover as employees reported symptoms or were shielding, ramping up delivery services and ensuring adequate supply of medicines were just some of the logistical issues to be overcome.

As we look ahead to 2021 it appears that, whilst the sector is coping well with the COVID 19 related challenges so far, they are set to continue for the time being. With the roll out of the various vaccine programmes nationwide, there are however opportunities for operators, and these will likely open up further over the coming weeks and months, allowing the sector to demonstrate its value again in the eyes of the communities it serves.

The recently agreed UK-EU Trade Agreement has largely been welcomed and if nothing else should enable business owners across the wider economy to plan ahead with more certainty this year – something that will benefit all of us. No doubt there will be some hurdles to overcome as the details become clear, particularly in the first quarter of 2021 as the UK authorities adjust to new import & export procedures and requirements.

The wider economic picture has created uncertainty in the High Street. Rental values have been well documented in the media, with some well-known pharmacy operators approaching their Landlords seeking a reduction. It is highly likely that as commercial rents come under pressure, many more contractors will seek to negotiate more favourable terms when their review comes around (if not before). Being

one of the largest business overheads, a reduction in rent can have a significant affect on bottom line profitability and hence pharmacy valuation when approaching the market to sell.



Questions around the funding of Community Pharmacy, and in England, whether the Advance Payments will ultimately be repaid or written down to some extent, continue to be fought over - the prevailing argument being that this is a highly qualified, experienced and professional sector which has risen to the challenges placed in front of it and continued to perform when many others have faltered. Indeed, pharmacy welcomes the opportunity to do more.

In relation to deal funding, the principal Banks all remain keen to lend on acquisitions although there has been a tightening of their lending criteria across the board in light of the more choppy, general economic outlook. Most importantly the appetite to acquire is expected to remain strong in the current climate and, whilst it is difficult to predict the volume of pharmacies coming onto the market in 2021, we anticipate a further stabilisation in Goodwill values over the next 12 months providing good news for those currently planning for a sale.

We wish all pharmacy operators out there the very best for 2021, hope you'll stay safe and thank you for all you are doing to help keep our communities healthy in these trying times.



Anne Hutchings
Managing Director

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

Would you appreciate a call, private meeting, or video call (Zoom or Teams) to discuss your options?

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

For more information, please call
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