PHARMACY MARKET REVIEW 2023

AN INSIGHT INTO THE UK PHARMACY MARKET

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INTRODUCTION

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Welcome to our 2023 Pharmacy Market Review, which captures the events and sentiments that have shaped the sector in the 12 months to June 2023.

In May 2023, the World Health Organization (WHO) officially declared the COVID-19 pandemic had finished, however, despite this its legacy continues to impact the sector with ongoing employment and cost challenges, to name a few, set against the backdrop of the flat funding of the Five-Year Deal.

There are, however, many reasons to remain positive, with the innovations the sector was forced to adopt now here to stay and more pharmacies embracing automation and technology when delivering services.

Throughout the second half of 2022 and the first half of 2023, the market was dominated by corporate disposals, most notably the widespread LloydsPharmacy sales. Despite muted responses from the company, the disposals gathered pace across all four country regions, with numerous sales reported.

45%

SALES AGREED FOR THE FIRST HALF OF 2023 WERE **UP 45%** ON THE SAME PERIOD IN 2022.

In our Market Composition section (pages 4 and 5), we track the consolidation across all the main corporate and supermarket players. In addition, despite the plethora of opportunities such disposals presented - many at a significant discount to the general market - independent sales continued to fare well.

In our Business Outlook publication, issued in January 2023, we reported that, as anticipated, against the backdrop of inflationary pressures, wider economic uncertainty, and some pressures unique to the pharmacy sector, our Price Index showed a cautious, nominal growth in the average sale price of 0.7% in 2022, compared with 2021.

Encouragingly, sales agreed for the first half of 2023 were up 45% on the same period in 2022, whilst completed sales were on par, partly due to the significant delay the sector saw in the processing of Fitness to Practice and Change of Ownership applications. What is clear is that appetite remains constant and bodes well for the remainder of the year and into 2024. The announcement in England of £645 million of new funding to support a 'Pharmacy First'-style scheme will no doubt contribute to a boost in confidence for the sector.

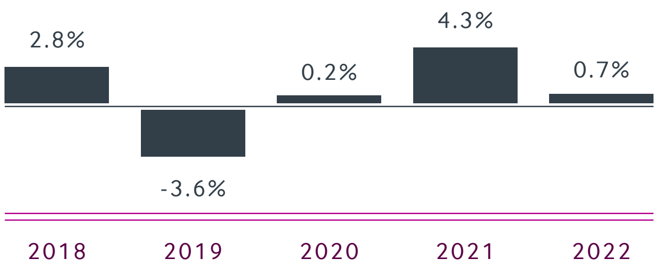
However, as with all such announcements, the devil is firmly in the detail. With Community Pharmacy England in negotiation with the Department of Health and Social Care to agree on the finer details, it is anticipated that funding under this initiative should start to land in pharmacies' bank balances towards the latter part of the year.

Meanwhile, in Scotland, the sector has seen the largest ever increase in its global funding of £12.3 million.

More recently, there has been dismay by what appears to be a complete imbalance in the way the other primary care services are treated, with the announcement of an uplift in funding to offset the pay increases in GP (General Practice) staff salaries. Off the back of the Additional Roles Reimbursement Scheme (ARRS), as reported in our 2022 Review, it is hard not to see this as another slap in the face for community pharmacy, which has continued to endure cost pressures against a flat funding model.

Looking ahead, 2024 will be a **big** year for the sector in England, as a new funding package to replace the 2019 Five-Year Deal should be delivered by the sector's negotiators. The success of such negotiations will no doubt have a huge bearing on the future of pharmacy. It seems inconceivable that the Government can continue to ignore the pressure the sector is facing in its delivery of what must be regarded as one of the most important services to impact the country's health.

BUSINESS OUTLOOK 2023: PRICE INDEX



MARKET COMPOSITION

In previous years, we have commented on the market composition and breakdown by operator size. This year, along with this, we provide a breakdown by contract type.

As in previous years, we have excluded NHS (National Health Service) Trusts, Hospitals, HMPs, and other public services.

For the year ended 31 March 2023, data provided by the General Pharmaceutical Council showed that the number of pharmacies in England, Wales and Scotland registered on its database fell by just 43 compared with the number registered at 31 March 2022. Under a Freedom of Information Request (FOI), the NHSBSA (NHS Business Services Authority) recorded that the sector in England saw a net reduction of 101 pharmacies compared with the prior year – with 371 pharmacy closures offset by the opening of 270 new pharmacy contracts.

The conversation over recent months has been around the significant number of closures, many of which were formalised in H1 2023 - notably the 237 LloydsPharmacy closures in Sainsbury's supermarkets. In June 2023, Boots UK announced its plans to close 300 pharmacies. Therefore, it is inevitable that total closure numbers for 2023 will be far greater which will put pressure on the remaining community pharmacy network and dramatically impact patient access and associated services.

Corporate operators saw a net reduction of 249 pharmacies, whilst the total number of independent operators remained relatively consistent with 2022.

As of March 2023, there was a total of 14,328 pharmacies across all four UK country regions, a 0.3% fall on the previous year. The largest movement was seen across the corporate sector, which recorded a 13.7% reduction in the number of businesses operating 300 or more pharmacies. Whilst the second largest reduction was for groups of 11 to 15 pharmacies by 5.6%, this is likely influenced by the shift in group size as some of those operators saw an increase in the number of pharmacies they owned through the acquisition of corporate disposal opportunities over the year.

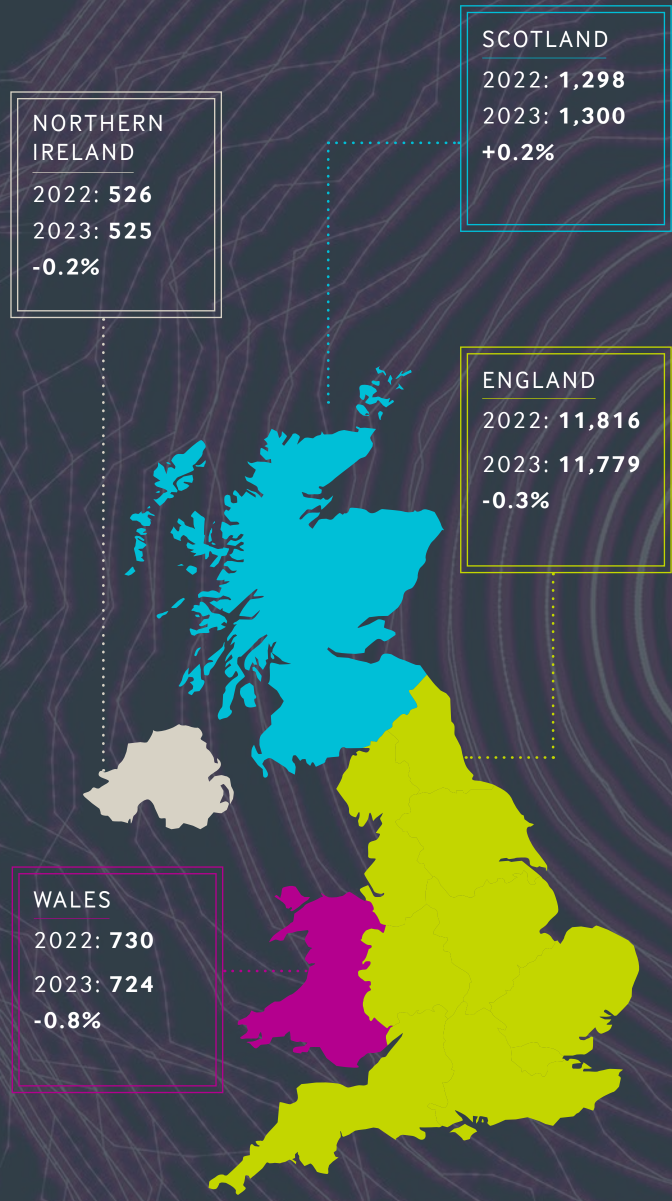
The sector's composition is now weighted firmly in favour of regional multiples, whilst those companies operating more than 300 pharmacies have reduced to circa 34% of the overall market.

A more detailed review of the top eight corporate and supermarket operators shows a net reduction in pharmacies of 249 across the year. Several corporate operators implemented or continued their ongoing closure or sale processes. With its large-scale disposal programme across the year, following its acquisition by Aurelius, LloydsPharmacy understandably saw the most significant reduction of 9.6%. This figure will only increase across 2023 as many of the sales agreed in the prior year progress to completion. Rowlands and Boots also reported net losses of 8.6% and 2.5% respectively.

4.3%

AS OF MARCH 2023, THERE WAS A TOTAL OF **14,328 PHARMACIES** ACROSS ALL FOUR UK COUNTRY REGIONS, **A 0.3% REDUCTION** ON THE PREVIOUS YEAR.

TOTAL NUMBER OF PHARMACIES



**Excludes Hospitals, NHS Trusts, HM Prisons*

MARKET COMPOSITION

INDEPENDENT OWNERSHIP BREAKDOWN

NUMBER OF PHARMACIES: 2022 VS 2023

	Independent	2 to 5	6 to 10	11 to 15	16 to 20	21 to 300	301+
2022	3,560	2,295	689	357	160	1,656	5,653
2023	3,558	2,351	686	337	179	2,337	4,880

Total: 14,370 | 14,328

NUMBER OF OPERATORS*: 2022 VS 2023

	Independent	2 to 5	6 to 10	11 to 15	16 to 20	21 to 300	301+
2022	3,560	911	94	29	9	29	8
2023	3,357	932	93	27	10	35	7

Total: 4,640 | 4,461

ON A CONTRACT-TYPE BASIS, RECOGNISING THE FACT THAT ONLY ENGLAND HAS 100-HOUR AND DISTANCE SELLING CONTRACTS OF THE **11,779 REGISTERED PHARMACIES:**

1,023
were 100-hour contracts

392
operated as distance selling contracts

CORPORATE AND SUPERMARKET OWNERSHIP BREAKDOWN

	2022	2023
Boots UK Limited	2,173	2,118
Lloyds Pharmacy Ltd	1,349	1,219
Bestway National Chemists Limited	747	733
L Rowland & Co (Retail) Ltd	440	402
Tesco Stores Ltd	376	372
Asda Stores Ltd	254	252
Superdrug Stores Plc	198	192

Ownership data reflects corporate structures as identified in GPHC contractor data to 31 March 2023

OPERATIONAL REVIEW

In reviewing key operating metrics, we analysed over 170 records from both valuation and transactional data across 2022 and 2023.

General commentary and feedback from operators over the course of this year demonstrate that they continue to face significant operational challenges with little respite or ability to offset costs within the current contractual funding framework.

Whilst gross margin performance has stayed more or less in line with our previous review in 2022, recently published accounts show downward pressure on margins by up to two percentage points.

Over this time, contractors faced continued challenges of drug shortages not only impacting supply but also resulting in a significant rise in pricing.

As a result, the sector saw stark increases in the number of drugs for which price concessions are granted. Whilst not a new issue, the volume of drugs attracting price concessions has increased significantly over recent years.

In the first six months of 2023, the Department of Health and Social Care awarded an average of 161 price concessions per month.

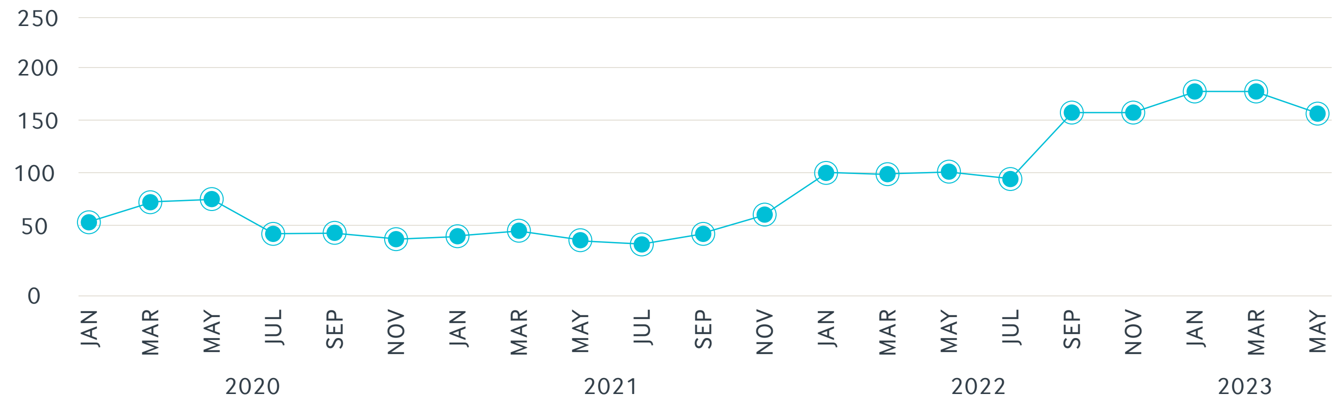
This continued pressure caused Community Pharmacy England (previously PSNC) to make repeat requests to senior government officials to overhaul the current system.

In our subsequent Employment Challenges section (page 7), we highlight a slight increase in locum costs. The sector was further challenged by the rise in the National Living Wage to £10.42 in April 2023.

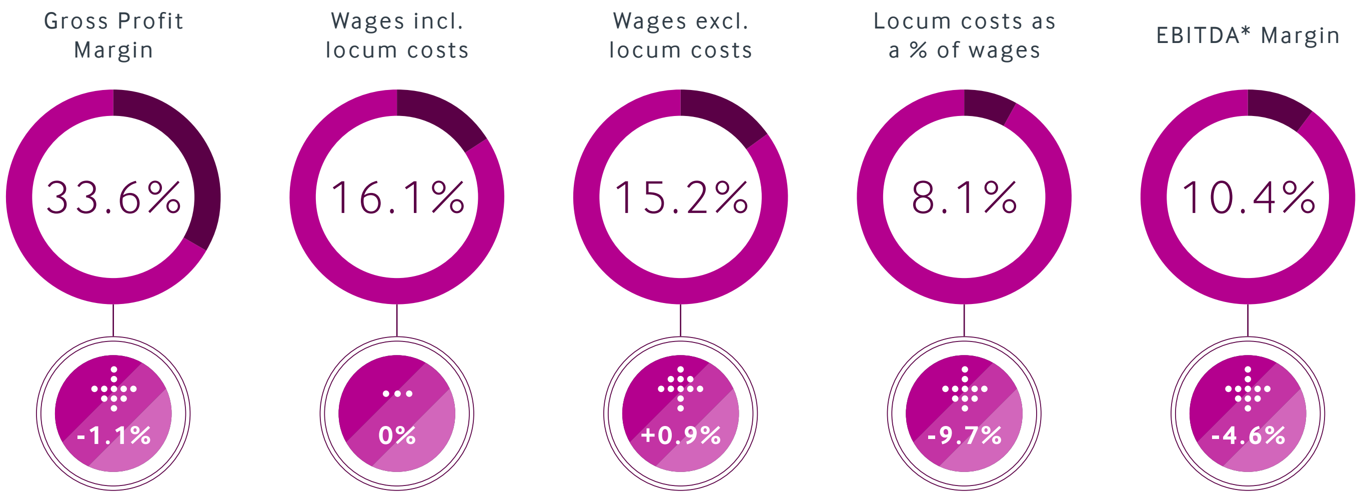
This is not only impacting costs associated with staff awarded the increase, but also the pressure resulting from similar percentage increases for those already above this rate to offset cost of living increases.

What is noticeable from the analysis is the 9.7% reduction in the proportion that locum costs account for in overall wage costs, symptomatic of the drive by contractors to reduce reliance on locum cover at a time when locum costs had escalated rapidly.

NUMBER OF PRICE CONCESSIONS GRANTED



A SNAPSHOT OF AVERAGE TRADING METRICS ACROSS THE UK



**Earnings Before Interest, Taxes, Depreciation and Amortisation*

EMPLOYMENT CHALLENGES

LOCATE A LOCUM

Data supplied by Locate a Locum

With recent reports from the Office for National Statistics that wages across the UK grew at a record annual pace to June 2023 by 7.8%, employment issues continued to beset the sector as one of the most pressing cost issues.

Challenged not only by an annual rise in the National Living Wage, which increased in April 2023 to £10.42, the sector has continued to face pressures as Pharmacists and qualified staff are lured away to GP surgery and PCN roles under the ongoing Additional Roles Reimbursement Scheme.

Much has been written about the inequality this creates within primary care, resulting in the Chair of The Association of Independent Multiple Pharmacies (AIMP) lobbying for a similar scheme to support the UK pharmacy network to introduce a more balanced position across primary care.

Figures published in NHS England's Primary Care Workforce Quarterly Update in May 2023 indicate that 6,331 FTE Pharmacists, along with 2,124 Pharmacy Technicians, have taken up roles under this scheme which, whilst helping the Government's manifesto pledge to recruit 26,000 new staff into general practice by 2024, has done nothing to support the employment crisis that the pharmacy sector is enduring.

7.8%

WAGES GREW AT A RECORD ANNUAL PACE TO JUNE 2023 BY **7.8%,** EMPLOYMENT ISSUES CONTINUED TO BESET THE SECTOR AS ONE OF THE MOST PRESSING COST ISSUES.

6,331 FTE PHARMACISTS, AND **2,124 PHARMACY TECHNICIANS** HAVE TAKEN UP PCN ROLES UNDER THE ONGOING ADDITIONAL ROLES REIMBURSEMENT SCHEME WHICH, WHILST HELPING THE GOVERNMENT'S MANIFESTO PLEDGE TO RECRUIT **26,000 NEW STAFF** INTO GENERAL PRACTICE BY 2024, HAS DONE NOTHING TO SUPPORT THE SECTOR'S UNEMPLOYMENT CRISIS.

LOCATE A LOCUM'S DATA SHOWS RATES INCREASING ACROSS ENGLAND, WALES, AND NORTHERN IRELAND TO AVERAGES OF **£37.14, £42.60** AND **£28.66** RESPECTIVELY.

As a result, whilst respite in locum costs was aired by some contractors in the first half of 2023, workforce pressures continue to drive locum rate increases across three of the four UK country regions, with only Scotland showing a reduction in average rates, down from £48.86 in 2022 to an average of £45.36 in 2023.

Data supplied by Locate a Locum further shows that, in England, Wales, and Northern Ireland, rates increased to averages of £37.14, £42.60, and £28.66 respectively.

From a UK towns and cities perspective, this data sample suggests that, on average, locum rates increased by 3.5% across the board. However, as always, there are winners and losers, with rates dropping the most in Inverness by an average of 14.8%, and rising most significantly in Cardiff by an average of 30.3%.

If broken down further by city and region, the data shows that, on average, rates increased by 0.3% in England, 7.6% in Wales, and 17.5% in Northern Ireland. However, Scotland saw a reduction of 2.9%.

Locate a Locum is a recognised end-to-end workforce management company providing services to the pharmacy and optical sectors. With clients including independents, multiples, and corporate operators, it analysed data of over 160,000 locum pharmacy shifts for the period June 2022 to July 2023.

In doing so, it is able to provide comprehensive reports on wage cost movement in its specialist sectors.

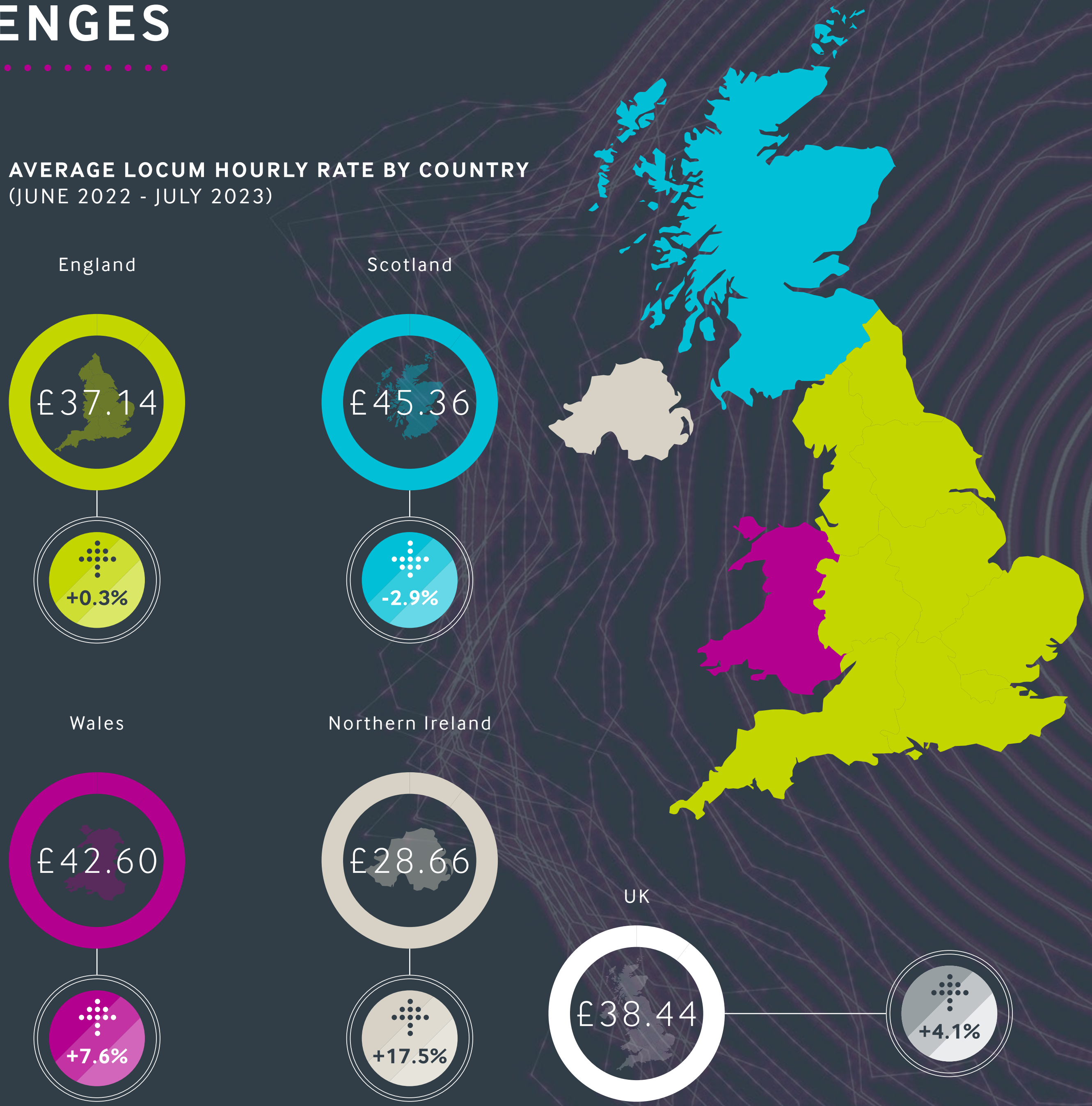
EMPLOYMENT CHALLENGES

Regional variations underline market complexities, local challenges and widespread NHS pressures, according to Locate a Locum's CEO, Jonathon Clarke, who adds:

> Community pharmacies continue to experience an unsettled period, with increased dispensing pressures as they continue to support the NHS services – which is against a backdrop of reduced funding, drug shortages, and store closures.
>
> Market forces are increasingly relying on locums to deliver services and ensure that pharmacies remain fully operational. More recently, we have witnessed an increase in negotiations between pharmacies and locum Pharmacists, in a bid to improve shift fill rates, in turn, reducing the need for emergency cover.

JONATHON CLARKE
Chief Executive Officer - Locate a Locum

AVERAGE LOCUM HOURLY RATE BY COUNTRY
(JUNE 2022 - JULY 2023)



AVERAGE LOCUM HOURLY RATE BY CITY/COUNTY
(JUNE 2022 - JULY 2023)

ENGLAND

	Avg rate (£)	Movement vs 2022 (%)
Cornwall	£48.81	+20.5%
Exeter	£45.20	+2.8%
Plymouth	£44.31	+13.1%
Bath	£42.25	+16.3%
Bristol	£42.10	+1.8%
Southampton	£42.07	+7.4%
Norwich	£40.94	-1.5%
Gloucester	£39.40	-9.6%
Newcastle	£38.68	+9.2%
Brighton	£38.66	+1.8%
Cambridge	£37.99	-3.7%
Peterborough	£37.61	-9.5%
Hull	£37.29	-9.3%
Liverpool	£37.01	+1.5%
York	£36.91	-2.3%
Sunderland	£36.88	+8.9%
Sheffield	£36.49	+6.1%
Lancaster	£36.27	+8.8%
Nottingham	£36.03	-7.7%

	Avg rate (£)	Movement vs 2022 (%)
Stoke on Trent	£35.73	+0.4%
Derby	£35.51	+5.0%
London	£34.72	+5.6%
Leeds	£33.93	+4.2%
St Albans	£33.58	-6.1%
Wakefield	£33.00	-5.7%
Manchester	£32.81	+3.0%
Wolverhampton	£32.47	+0.8%
Bradford	£32.33	-9.3%
Birmingham	£32.13	+11.5%
Leicester	£27.68	-2.3%

SCOTLAND

	Avg rate (£)	Movement vs 2022 (%)
Dumfries	£51.80	+0.7%
Inverness	£50.91	-14.8%
Stirling	£48.83	+2.3%
Dundee	£48.70	+1.6%
Perth	£46.98	-4.7%
Edinburgh	£45.31	-4.9%
Aberdeen	£44.55	-9.3%
Glasgow	£41.21	+0.5%

NORTHERN IRELAND

	Avg rate (£)	Movement vs 2022 (%)
Derry/Londonderry	£29.63	+22.3%
Belfast	£27.38	+15.7%

WALES

	Avg rate (£)	Movement vs 2022 (%)
Swansea	£45.18	+21.3%
Newport	£44.39	+26.6%
Cardiff	£42.59	+30.3%

KEY DISPENSING & SERVICES ACTIVITY

DISPENSING

According to NHSBSA data, in the 12 months to March 2023, dispensing activity in England increased by 4%, continuing to show a forward trajectory in the total number of dispensed items declared.

For example, in March 2023, contractors declared 97,216,400 items, circa 3.8 million above the same month in the prior year. As a result, the average volume dispensed by community pharmacies increased to 8,078 items per month.

All pharmacy settings saw an increase in volumes dispensed, although standard pharmacy settings continued to lead this with an increase of 5%.

This was followed by health centre adjacent settings which saw a 4.7% increase, and health centre pharmacies which saw the smallest increase of 2.4% - over half of that in community settings.

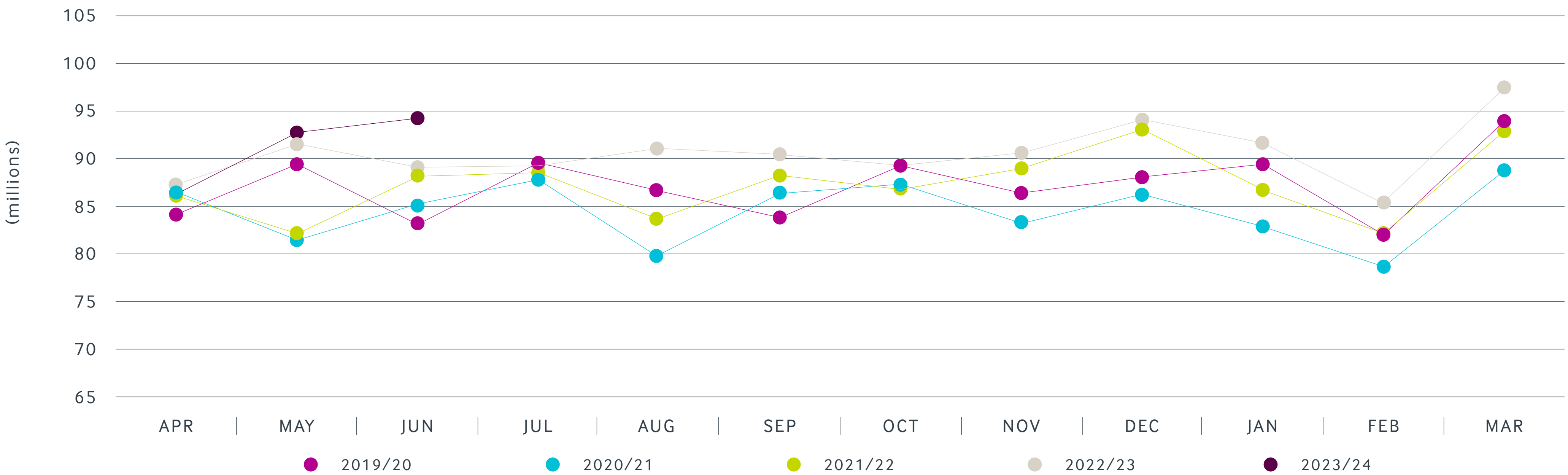
From a volume perspective, however, integrated settings continued to lead the way with an average volume of 10,030, followed by health centre adjacent settings returning 9,354, and standard settings averaging 7,529 items.

By operator type, independent contractors saw the highest volume increases, with independent settings now averaging 8,949 items per month.

As in previous years, it was the corporate operators who, despite enjoying growth, saw the smallest increase of 1.4%.

Our analysis of dispensing volumes by contract type shows that standard hours contracts saw average dispensing volume of 7,837, with 100-hour contracts dispensing an average of 8,972 items, and distance selling contracts dispensing an average of 14,419 items. However, the latter is distorted by the significant volumes the top seven online pharmacies dispense which, if excluded, causes the average volume dispensed to fall significantly to 7,228 items.

NUMBER OF ITEMS DECLARED BY PHARMACY CONTRACTORS IN ENGLAND



MONTHLY AVERAGE ITEMS

8,078	2022/23
7,765	2021/22
7,431	2020/21
7,555	2019/20
7,362	2018/19
7,313	2017/18
7,383	2016/17

MONTHLY AVERAGE ITEMS BY SETTING

2022/23

Standard	Integrated	Health Centre Adjacent
7,529	10,030	9,534

MONTHLY AVERAGE ITEMS BY OPERATOR TYPE

2022/23

Corporate	Large	Medium	Small	Independent
7,031	8,837	8,049	8,783	8,949

**Excludes Hospitals, NHS Trusts, HM Prisons*

SERVICES

The delivery of services has become an even more important income generator for pharmacies with the proportion of funding delivered under the Five-Year Deal increasing over the five-year period.

In reviewing the uptake of service activity across the sector, we submitted Freedom of Information requests covering advance services, NMS (New Medicines Service), CPCS (Community Pharmacist Consultation Service), and the more recently announced PCS (Pharmacy Contraception Service).

In total across the 12 months to March 2023, 452,614 advance services were undertaken across 8,629 pharmacy settings. The highest volume of service delivery was through CPCS, in which 6,808 pharmacies delivered 134,729 consultations.

The second largest advanced service was blood pressure tests, for which 4,680 pharmacies undertook 119,913 blood pressure checks.

With regards to the New Medicines Service, on average 9,113 pharmacies undertook 280,110 NMS per month across the 12-month period.

More recently, the Pharmacy Contraception Service was introduced with a mixed response from the sector.

Over the four months to July 2023, 2,216 pharmacies registered for the service, with a peak of 769 in May. Of those, it was predominantly group operators who delivered the service.

SUPPLY & DEMAND

AVERAGE TIME IN WEEKS FROM A SALE BEING FIRST AGREED TO COMPLETION, 2023

32 ALL SALE TYPES

29 SHARE SALES

35 ASSET SALES

BUYER PROFILES – WHO IS BUYING?

Buyer volumes remained broadly consistent with previous years, at circa 6,000 applicants across the UK. Similarly, the mix of applicant types remained in line with 2021/22, with 80% being first-time buyers, emphasising that many pharmacists continue to seek opportunities to invest in the market and operate their own businesses.

With a mix of independent, small multiples, medium multiples, or large multiples accounting for the remaining proportion, it was, again, interesting to note that sales to existing contractors in the full 12 months of 2022 outweighed those to first-time buyers by approximately three-to-one.

However, in the first six months of 2023, the spread was far more even, with a third of all sales completed to first-time buyers.

SALES STRUCTURES

The Pharmacy sector is one that has long embraced ownership through corporate structures, the existence of which impacts sales processes due to regulatory and legacy issues. In 2022, 55% of sales we completed were share sales.

This increased in 2023, with H1 2023 statistics showing 57% of sales were of corporate structures. As in 2022, it is anticipated that the split between asset sales and share sales may narrow as outstanding change of ownership applications are determined over the second half of the year.

55% IN 2022, **55%** OF SALES WE COMPLETED WERE SHARE SALES.

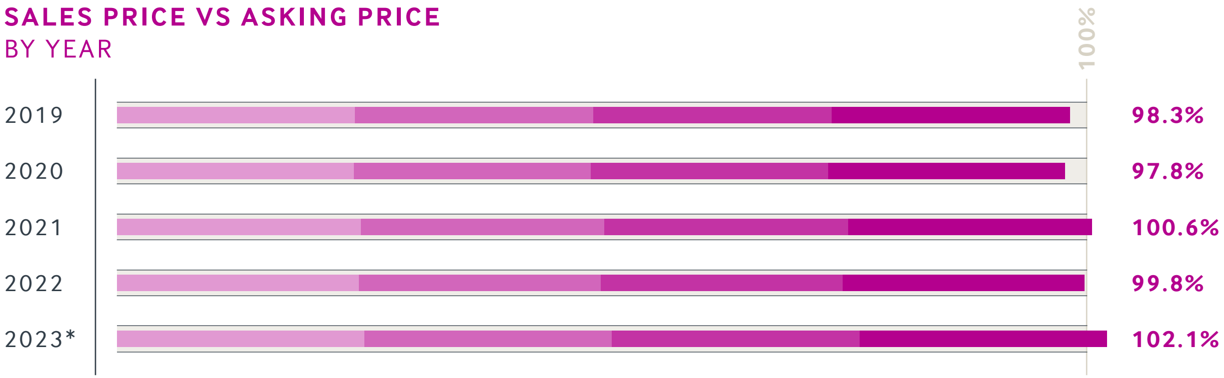
TIMELINES

For the whole of 2022, the average timeline for a pharmacy sale was 31 weeks - a slight improvement on the prior year. However, 2022 saw several significant corporate sales processes, the majority being undertaken by way of asset sales. Due to the differing regulatory processes between asset and share sales, this created huge pressure on the regulatory change of ownership process with the limited resources of PCSE (Primary Care Support England) and NHSLATs already under significant stress.

As a result, average timelines have drifted out again over the first six months of the year, with an average completion taking 32 weeks from the date that the sales were first agreed.

Share sales still transact quicker, however the average timeline for an asset sale has reduced dramatically. This is due, in part, to the applicant type to whom sales have been agreed. Vendors continue to give preference to interested parties who are already operating pharmacies, particularly those who already have Fitness to Practice approval with NHSLATs, thereby shortening the regulatory approval processes.

SALES PRICE VS ASKING PRICE
BY YEAR



*Six months to June 2023

ONLINE PHARMACY

Online platforms continue to divide opinion across the sector, with NHSBSA data showing that, on average, distance selling contracts are dispensing 14,419 items per month.

However, this figure is distorted by the volume of items key online platforms deliver which, when excluded, brings the average performance down to 7,228 items per month.

Much has been debated regarding the viability of online pharmacies. In an article in Chemist + Druggist, the former Chair of the General Pharmaceutical Council (GPhC) questioned the sustainability in their current trading format.

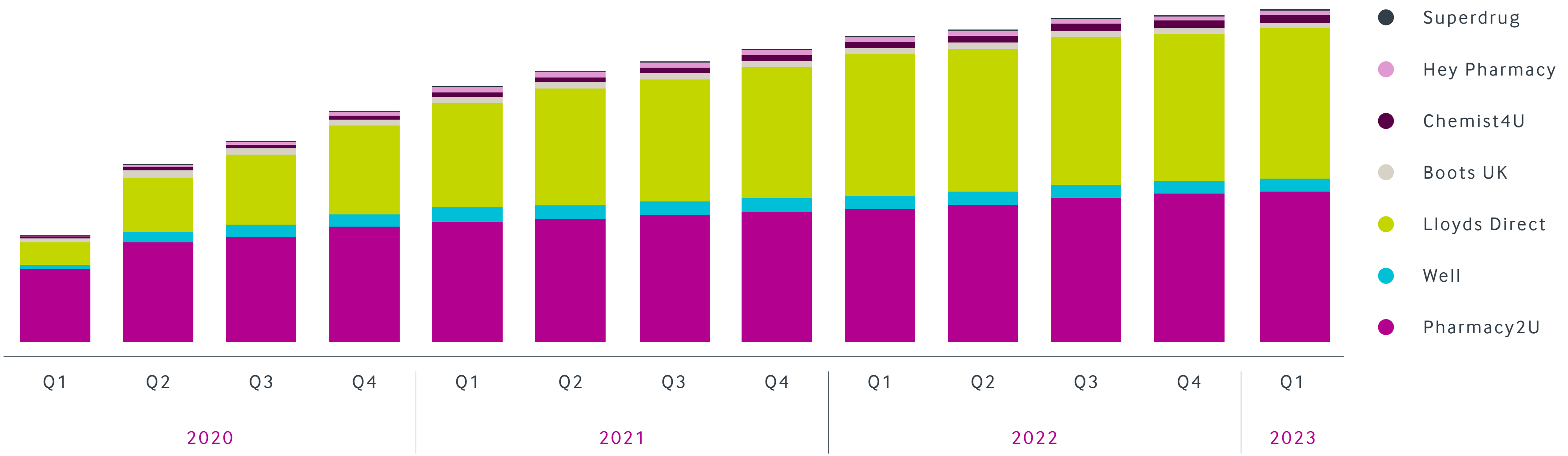
There have also been questions around their adherence to pharmacy standards, with, in another Chemist + Druggist article, the GPhC's Director of Insight, Intelligence and Inspection suggesting that almost a third of online pharmacies were failing to meet all core regulatory standards. It was further suggested that 30% of the GPhC's fitness to practice caseload was related to professionals working within online environments.

Nonetheless, this area of the market has seen further investment, with the likes of Glasgow-based Phlo Digital Pharmacy receiving £10 million of venture capital investment in early 2023 to fund its expansion across the UK via a new hub in Manchester.

It is interesting to note that dispensing volumes for the seven prominent online platforms we have tracked over the last three years grew 12% on the prior year, with just over 32.5 million items dispensed in the 12 months to March 2023, representing 2.6% of the overall items dispensed. Pharmacy2U continues to dominate, dispensing just short of 1.6 million items in March 2023.

With EPS prescribing accounting for almost 96% of items dispensed for the year ending March 2023, it is clear that the larger platforms will continue to develop market share. However, none are immune to the cost pressures seen across the wider sector, adding weight to comments regarding the sustainability of some smaller online businesses.

TOTAL ITEMS DISPENSED BY KEY ONLINE PHARMACY PLATFORMS



MARKET ACTIVITY - 2022

A SELECTION OF PHARMACIES SOLD IN 2022

MEDICHEM PHARMACY NORTHOWRAM & MEDICHEM PHARMACY HIPPERHOLME, HALIFAX

- Sold as part of a group of two GP-integrated sites
- Combined, they dispense circa 20,000 items pcm
- Purchased by an existing independent operator

SHELLY'S PHARMACY, LONDON

- Retirement sale
- Dispenses circa 8,000 items pcm
- Sold to a small group operator

PARKHEAD HEALTH CENTRE PHARMACY, GLASGOW

- Integrated pharmacy
- Dispenses circa 14,200 items pcm
- Sold to an expanding operator

NOOTS PHARMACY, HAVERFORDWEST

- Retirement sale
- Dispenses circa 17,000 items pcm
- Sold to an expanding operator

MANSFIELD CHEMIST, ESSEX

- Standard hours pharmacy
- Dispenses circa 3,299 items pcm
- Sold to a first-time buyer

ASHBY PHARMACY, SCUNTHORPE

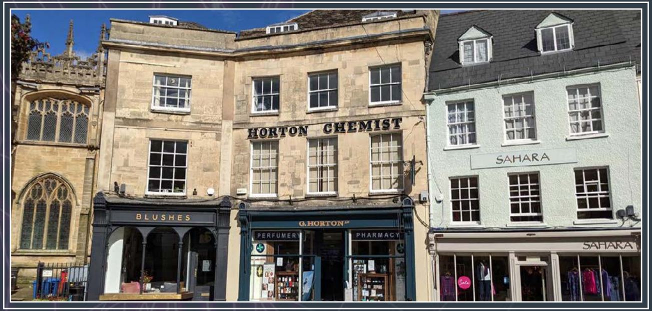
- Sold in excess of guide price
- Dispenses circa 8,000 items pcm
- Purchased by a first-time buyer

IN 2022, WE SOLD **105 PHARMACIES** WITH A COMBINED VALUE OF **MORE THAN £90 MILLION.**

HEALTHSTOP PHARMACY, BIRMINGHAM

- Standard hours community pharmacy
- Dispenses circa 5,300 items pcm
- Sold to a local operator

G HORTON PHARMACY, CIRENCESTER



- Standard hours pharmacy
- Dispenses circa 10,000 items pcm
- Sold to a local operator

JAYPLEX CHEMIST, NOTTINGHAM

- Standard hours community pharmacy
- Dispenses circa 3,800 items pcm
- Good levels of owner operator profit

ALLENDALE PHARMACY, NORTHUMBERLAND

- Community Pharmacy
- Dispenses circa 4,750 items pcm
- Desirable village location

KAYS CHEMIST, CAMBRIDGE

- Standard hours pharmacy
- Dispenses circa 7,700 items pcm
- Sold to a first-time buyer

BEDFORD PARK PHARMACY, LONDON

- Community pharmacy
- Dispenses circa 2,125 items pcm
- Sold to an existing operator

MARKET ACTIVITY - FIRST HALF OF 2023

A SELECTION OF PHARMACIES SOLD IN H1 2023

STAGEDALE LTD TRADING AS WEST ELLOE PHARMACY & KNIGHT STREET PHARMACY, SOUTH LINCOLNSHIRE

- Group of two pharmacies
- Combined, they dispense circa 64,000 items pcm, including England's largest dispensing volume bricks and mortar pharmacy
- Sold to an expanding East Midlands group operator

HANFORDS CHEMIST, SWANSEA

- Adjoining large surgery
- Dispenses circa 18,400 items pcm
- Sold to a regional multiple operator

EGGINGTON STREET PHARMACY, LEICESTER

- Standard hours community pharmacy
- Dispenses circa 4,700 items pcm
- Sold to a local first-time buyer

STONE PHARMACY, BARNSLEY

- Integrated 100 hours pharmacy
- Dispenses circa 20,000 items pcm
- Sold to existing operators

CRISTAL'S PHARMACY, HERTFORDSHIRE

- Dispenses circa 3,100 item pcm
- Sold to first-time buyers
- Funding arranged by Christie Finance Unsecured

WESTMINSTER PARK PHARMACY & OWENS CHEMIST, CHESTER

- Genuine retirement sale
- Sold to an existing independent operator, funded through Christie Finance
- Combined, they dispense circa 13,000 items pcm

IN THE FIRST HALF OF 2023, WE SOLD **49 PHARMACIES** WITH A COMBINED VALUE OF CIRCA **£47.75 MILLION.**

NB PHARMACY, KENT

- Retirement sale of standard hours pharmacy
- Dispenses circa 6,500 items pcm
- Sold to a first-time buyer

BALMEDIE PHARMACY, ABERDEENSHIRE

- Dispenses circa 5,255 items pcm
- Unopposed village location
- Sold to a local independent operator

FAIRBROTHER PHARMACY, CAMBRIDGESHIRE

- High volume standard hours pharmacy
- Dispenses circa 27,000 items pcm
- Sold to an expanding operator

RIGHTDOSE PHARMACY, EDINBURGH

- City centre location
- Dispenses circa 3,840 items pcm
- Sold to a local independent operator

MEDICARE, WEST LONDON

- Standard hours pharmacy
- Dispenses circa 2,750 items pcm
- Sold to a first-time buyer

BARTON PHARMACY, DEVON

- Former ESP pharmacy
- Unopposed trading location
- Sold to a local first-time buyer

THE FINANCE LANDSCAPE

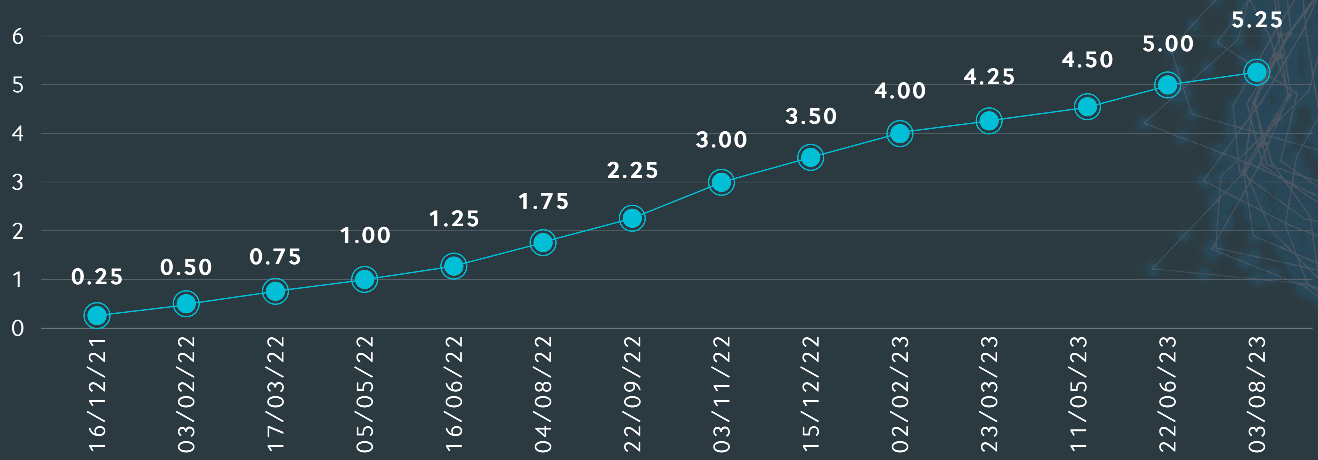
DAVID WARD
Senior Director - Acquisitions, Refinances & Debt Advisory
Christie Finance

THE FIRST HALF OF 2023 WAS DOMINATED BY TWO THINGS: THE CONTINUED DIVESTMENT OF A SIGNIFICANT NUMBER OF LLOYDSPHARMACY SETTINGS AND RISING INTEREST RATES.

These two events put increased pressure on not only brokers but lenders themselves, who received a record number of lending requests in the first half of the year. Despite this, they rose to the challenge and welcomed well-presented requests for finance, although the sheer volume of requests has meant that the finance-side of transactions took longer than usual. Add this to the increased workload of valuers, solicitors, and NHS England, and we are seeing transaction times extend.

Interest rates continue to be a key focus for lenders and buyers. More recently, the successive monthly increases in interest rates to 5.25% (as of August 2023) have resulted in the highest interest rates in the UK for 15 years. Whilst some respite was witnessed in inflation figures in July, some financial market commentators consider that the implied path for the Bank Rate over the next three years is more likely to be 5.5%, well ahead of that forecast by the Bank of England's Monetary Policy Committee in its Monetary Policy Report - August 2023. As a result, it is inevitable that the cost of commercial borrowing will not only continue to squeeze trading performances but may also restrict the number of products available in the marketplace.

14 INTEREST RATE RISES IN A ROW



Source: Bank of England, Official Bank Rate History

RCC Business Mortgages plc, trading as Christie Finance, is authorised and regulated by the Financial Conduct Authority. Our Firm Reference number is 709982. Not all types of business we undertake is authorised and regulated by the Financial Conduct Authority. Christie Finance operate as an intermediary and are not a principal lender.

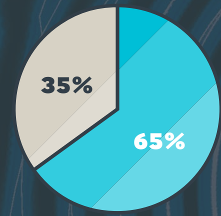
HEADLINE STATS

80% INCREASE IN NUMBER OF INSTRUCTIONS FROM 2022 TO 2023

ACQUISTION FINANCE INSTRUCTIONS UP BY **76%** ON PRIOR YEAR

FINANCE TYPE BY %

- Acquisitions
- Refinance



CASE STUDIES

SINCLAIR PHARMACY, SCOTSTOUN
- Dispenses circa 6,000 NHS items pcm
- Sold to Glasgow-based operator

GLENNON CHEMIST, WALTHAM ABBEY
- Dispenses circa 9,650 items pcm
- Sold to Hastings-based operator

UNSECURED FINANCE

SHAUN WATTS
Director - Head of Unsecured & Asset Finance
Christie Finance

Since July 2022, we have seen a significant increase in the demand for unsecured loans and asset finance across the UK, with operators of all sizes seeking to modernise their operations and expand their reach in the community.

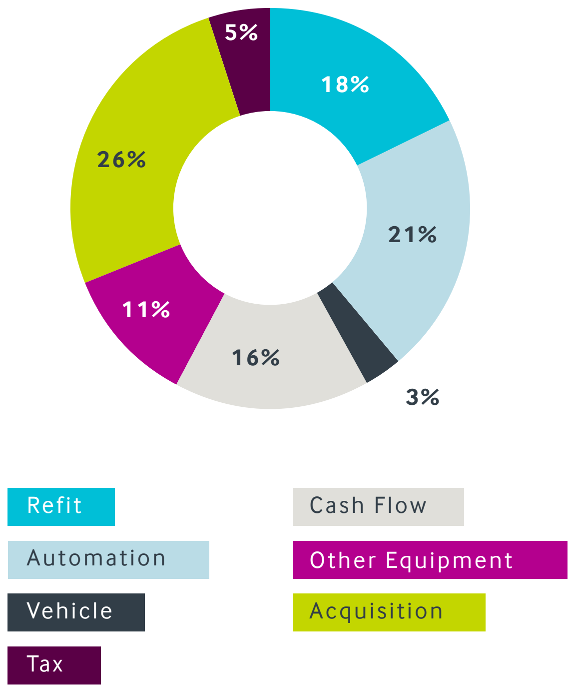
From January to June 2023, asset finance covered one third of all finance provided, with continued strong demand to support the installation of automated dispensing robotics.

Activity suggests that many community pharmacies across the UK and Ireland are taking advantage of automation to free up the space, time, and resources needed to become more customer-facing, handle additional services, and grow their businesses. Hence, the increase in funding we have witnessed.

We also saw many clients refurbishing/re-configuring existing sites to allow additional services to satisfy demand at a local level, with many delivering high-margin returns.

The spike in unsecured funding being used for acquisition purposes has been driven by the significant number of corporate disposals with their associated tight timescales, enabling operators to complete faster.

HOW FUNDING WAS USED



+175%

THE NUMBER OF CLIENTS UTILISING REVOLVING CREDIT SCHEMES TO SUPPORT THEIR GROWTH INCREASED BY **175%** BETWEEN JULY 2022 TO JULY 2023

CASE STUDIES

Multiple-pharmacy operators centralising high-volume dispensing

Currently, the pharmacies operate separately, with dispensing carried out by teams at a branch level. Our client identified that this is not the most efficient way for them to operate and was becoming a barrier to their growth. To overcome this, we are providing a funder solution to enable them to invest in a fully automated system, allowing for batch processing and barcode scanning which will streamline their dispensing process. Centralising their distribution will enable continued growth, unlocking better pricing from suppliers. Staff within the pharmacies will then be able to begin running clinics, in line with the Government's desire for pharmacies.

Investing in automation

Our client acquired two dispensing units 12 months earlier and has recently installed blister pack and pouch pack machinery to continue their drive to an efficient dispensing programme. All four items of machinery were funded on Hire Purchase, allowing the client to see the benefit of reduced costs and increased revenue which in turn services monthly repayments.

Investing in out-of-hours dispensing

A long-established pharmacy client recently purchased a 24/7 dispensing unit, allowing customers to collect prescriptions outside usual opening hours. This improved service to the local community without the requirement for extended opening hours.

COUNTING THE COST IN PHARMACY

DAVE BRITTLE
Head of Pharmacy Sales
Orridge

Founded in 1846, associate company, Orridge PS Limited, provides specialist stocktaking services to the pharmacy sector.

As contractors seek to drive operational efficiencies where they can, stocktaking has become one aspect they turn to in protecting margins and driving profit.

Offering stocktake services to both corporate and independent operators, Orridge undertook over 4,200 stocktaking events across the 12 months to March 2023, an increase of over 9% on the prior year.

Interestingly, only 2% of stocktakes were for sale purposes, with the remainder firmly there to support stock control and protect margins. However, it is anticipated that this proportion will increase significantly in 2023 due to the high volume of corporate divestment sales which require stocktake valuations to support the completion process.

As the sector embraces technology and automation with the introduction of dispensing robots etc., we have witnessed more stocktakes where automation plays a key role within a pharmacy's stock management. Ironically, however, the inclusion of data from automated activities in stocktake reports requires manual pricing research/data entry to convert the robot's stock printout to a value.

In the main, it is the larger operators who have been more interested in product-level data and reporting from stocktakes to include the ability to update EPOS (Electronic Point of Sale). Whilst many independent pharmacies have traditionally confined their interest to the total stock valuations, as product lines and reporting become more sophisticated, more and more are focusing on category breakdowns and item-level data.

9% 12 MONTHS TO MARCH 2023, WE SAW A **9%** INCREASE IN THE NUMBER OF PHARMACY STOCKTAKES ON THE PRIOR YEAR, UP FROM 3,850 TO **4,200**

AVERAGE STOCKTAKE DURATION: **4H 52M**

2% ONLY **2%** OF STOCKTAKES WERE FOR SALE PURPOSES

AVERAGE VALUE COUNTED: **£44,000**

80% MORE THAN **80%** OF THE NHS DRUGS WE COUNT ARE GENERICS

85% OF MEDICINES PRESCRIBED IN A PRIMARY CARE SETTING (GP, DENTIST, PHARMACY) ARE GENERICS, REDUCING TO **50%** IN SECONDARY CARE SETTINGS

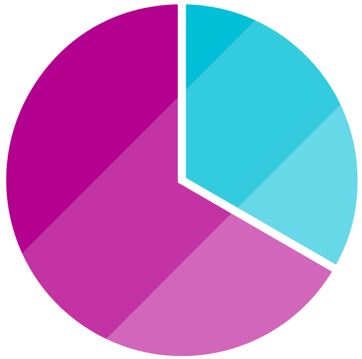
NHS STOCK VALUE BY PHARMACY OPERATOR:

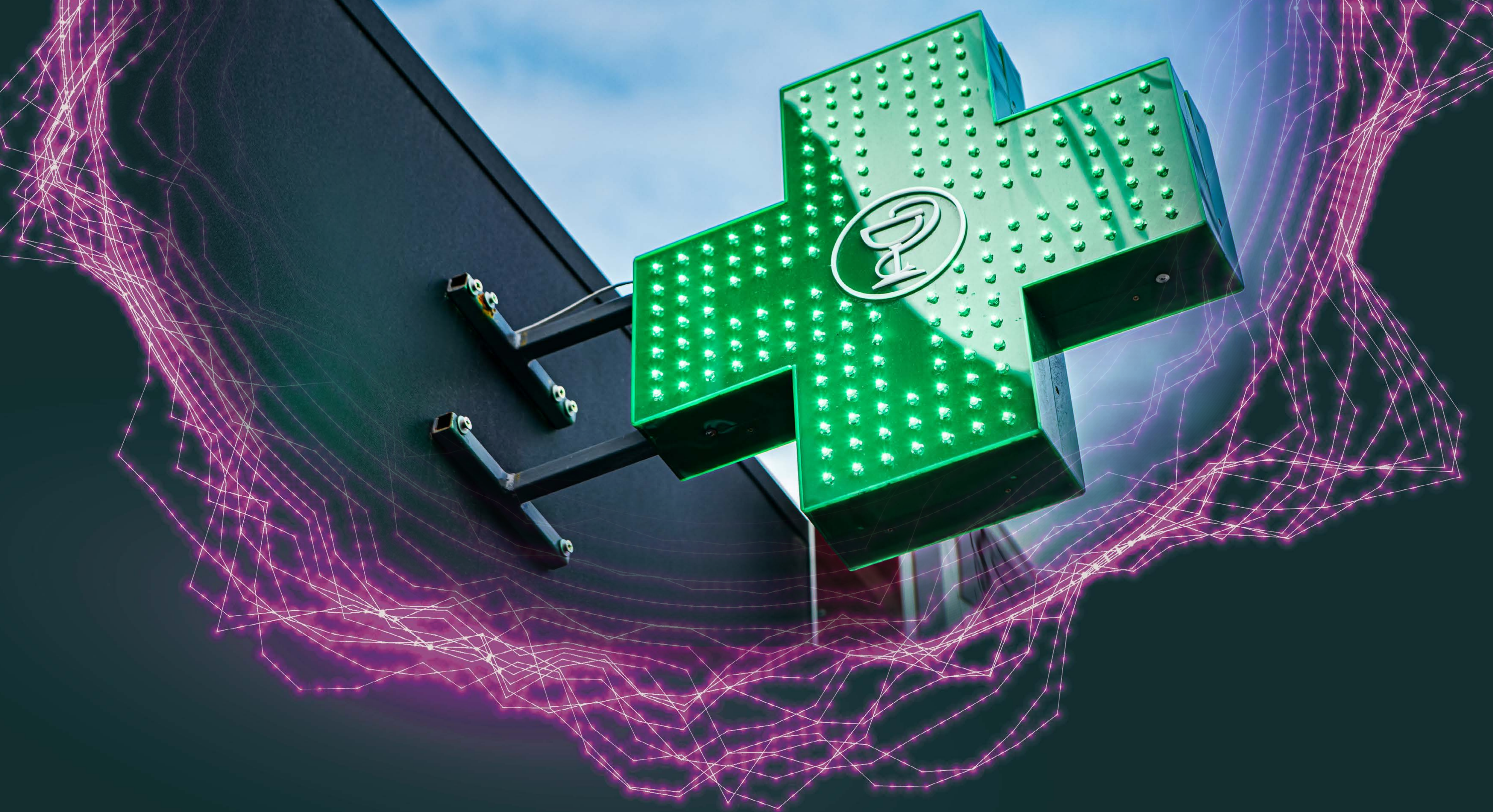
82%
Independent operator

50%
Multiple operator

10-15%
Corporate

SPLIT BETWEEN NHS AND OTC STOCK 2/3 VS 1/3 RESPECTIVELY:





OUR SERVICES

OUR SERVICES

Established in 1935, Christie & Co is the only specialist firm of agents and RICS (Royal Institution of Chartered Surveyors) Registered Surveyors dealing with both the valuation and sale of pharmacies in the UK.

WE OFFER A FULL RANGE OF PROFESSIONAL SERVICES TO CLIENTS SELLING, BUYING, OR RAISING FINANCE IN THE PHARMACY SECTOR, INCLUDING:

- Pharmacy sales and acquisitions
- RICS-accredited valuations for loan security
- Commercial due diligence, market studies and performance benchmarking
- Lease advisory services and dispute resolution
- Investment brokerage and advice
- Finance raising for acquisition, refinance, unsecured, and asset finance
- Research
- Expert witness
- Lease and rent reviews

RICS Regulated by RICS

Regulated by the RICS (Royal Institution of Chartered Surveyors), we work to the highest professional standards.

DEALING ACROSS THE WHOLE MARKET AND ALL PRICE RANGES AND PHARMACY TYPES, OUR SPECIALISTS HAVE IN-DEPTH MARKET KNOWLEDGE OF THE AREA IN WHICH THEY LIVE AND WORK.

Our 'whole of market' approach means that the pharmacies we sell are offered to a range of quality buyers, ensuring value is maximised for our clients. No buyer registration fees, or 'preferred' buyers means no conflicts of interest and that our clients receive our best advice. The largest specialist team of pharmacy professionals working in the UK pharmacy market, with 31 qualified Surveyors, Agents, and Consultants. Living and working across all regions of the UK, our team understands and reacts to local market dynamics to ensure our clients receive the most accurate and timely advice.

IN THE LAST FIVE YEARS, WE HAVE ADVISED ON, VALUED, OR SOLD...

5,000

OVER **5,000** PHARMACIES...

£3.45 BN

...WITH A COMBINED VALUE OF OVER **£3.45 BILLION** ACROSS OUR SPECIALIST TEAMS

Following a recommendation to Christie & Co from a friend, I found our agent approachable and reassuring throughout the whole process, and I could not have put the sale in better hands. I would have no hesitation in recommending them to anyone thinking about selling their pharmacy in the future. I am absolutely delighted to have sold my business and look forward to a long and peaceful retirement.

Patricia Edmunds,
former owner of Hanfords Chemist Ltd

We bought our pharmacy through Christie & Co 20 years ago and we got the same first-class service from them to sell it.

We would never use or recommend anyone but Christie & Co.

Mina & KJ Patel,
former owners of Fairbrother Pharmacy

CONSULTANCY & VALUATION SERVICES

DURING 2022 AND THE FIRST HALF OF 2023, OUR PROFESSIONAL VALUATION SERVICES TEAM SAW A STRONG PERFORMANCE...

UNDERTAKING **482** PHARMACY VALUATIONS...

...WITH A COMBINED VALUE IN EXCESS OF **£481 MILLION** OF MIXED LEASEHOLD AND FREEHOLD PHARMACY BUSINESSES

This has given us a unique insight into the operational characteristics of a pharmacy business, and a huge repository of quality data currently with over 100 million data points. Coupled with our deep knowledge of the pharmacy market, this creates the foundations upon which our consultancy services are built.

Over this time, we undertook a significant increase in single asset valuation work off the back of the LloydsPharmacy and other corporate divestment programmes.

There was a strong emphasis on LloydsPharmacy valuations in Scotland, with a wide mix of assets sold and the team undertaking 47 valuations on behalf of several group operators including Right Medicine Pharmacy Limited.

Approximately 51% of all the valuations completed were for refinance purposes, with the remaining 35% undertaken to support pharmacy acquisitions and 14% for other purposes such as Expert Witness and Litigation.

Group refinance valuations also played a significant part in the work undertaken, with advice provided to groups such as Lo's Pharmacy Ltd, HubRx Ltd, Whitworth Chemists Ltd, and Living Care Group, to name a few.

THERE WAS A STRONG EMPHASIS ON LLOYDSPHARMACY VALUATIONS IN SCOTLAND, WITH A WIDE MIX OF ASSETS SOLD AND THE TEAM UNDERTAKING **47 VALUATIONS** ON BEHALF OF SEVERAL GROUP OPERATORS.

DURING THIS PERIOD, WE HAVE ACTED FOR LLOYDS BANKING GROUP, NATWEST, CLYDESDALE VIRGIN, SHAWBROOK BANK, AND HSBC.

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GLOSSARY OF TERMS & SOURCES

TERMS

ARRS: Additional Roles Reimbursement Scheme

AIMP: The Association of Independent Multiple Pharmacies

Community Pharmacy England (previously PSNC): The representative body for all community pharmacy owners in England

CPCS: NHS Community Pharmacist Consultation Service

DHSC: Department of Health and Social Care

DSC: Distance Selling Contract

EBITDA: Earnings Before Interest, Taxes, Depreciation, and Amortisation

EPOS: Electronic Point of Sale

EPS: Electronic Prescription Service

Five-Year Deal: A five-year deal setting out how community pharmacy will support the delivery of the NHS's long-term plan

Fitness to Practice: The ability to meet professional standards

FTE: Full-Time Equivalent

FOI/Freedom of Information requests: Request of recorded information from public authorities

GP: General Practice

GPhC: General Pharmaceutical Council

HMPs: His Majesty's Prison Service

NHS: National Health Service

NHSLAT: NHS Local Area Team

NMS: New Medicines Service

ONS: Office for National Statistics

OTC: Over the Counter

PCN: Primary Care Network

PCM: Per calendar month

PCS: Pharmacy Contraception Service

PCSE: Primary Care Support England

RICS: Royal Institution of Chartered Surveyors

WHO: World Health Organization

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Pharmacy