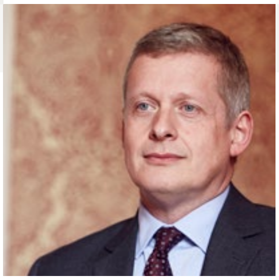
PHARMACY



Demand remains strong across the major conurbations, particularly in London, the South East, the North West and the central belt of Scotland, evidenced by strong offers and rising multiples of profit.

TONY EVANS
Head of Pharmacy

Buyer profiles continued to evolve as the market saw a lull in appetite from larger multiple and corporate operators.

MARKET OVERVIEW

2018 saw more pharmacies come to the market in England, largely driven by the combined ongoing impacts of the DHSC funding cuts, the Category M clawback, and supply and pricing issues, despite some closures, as corporate and multiple operators rationalised their estates to remove non-performing assets. Wales and Scotland, relatively few pharmacies changed hands due to a more stable funding environment. As a result, where opportunities did come to market, competitive interest was generated, driving premium prices above those achieved for equivalent pharmacies across the border in England.

Buyer profiles continued to evolve as the market saw a lull in appetite from larger multiple and corporate operators, This was partly as a result of concerns over the squeeze in cash flow that funding pressures created, whilst others took the decision to focus on fully integrating acquisitions made in prior years before embarking on further growth. This led to a shift in activity towards smaller multiple operators, more independent contractors and first-time buyers. In 2018, we saw an 11% increase in the number of pharmacy applicant registrations. The breakdown in buyer type has remained relatively consistent with around 80% of buyers being either first-time buyers or new entrants to the market, largely made up of pharmacy managers and locums disenchanted by employment and associated pressures.

GOVERNMENT FUNDING

The largely anticipated announcement in late October 2018 that the 2018/19 global funding settlement for England would remain virtually unchanged was met with disappointment. As a result, operators anticipated increased cost pressures associated with the implementation of the Falsified Medicines Directive in February 2019, the three-pence reduction in the Single Activity Fee and further increases in the National Living Wage announced in the 2018 Autumn Budget.

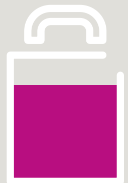
At the same time, following a brief respite after the 2017/18 £180 million Category M clawback came to an end in July, the PSNC announced it had agreed a further clawback of £50 million to be taken in five monthly instalments from November 2019. It is hoped that its completion in March will put an end to clawbacks based on historic over-performance.

Purchasers will seek comfort in the fact that with average deal times of approximately four to six months, most pressure will have already been borne by incumbent operators. Optimistic about a more supportive settlement for 2019/20, we anticipate that buyer confidence in 2019 will remain at similar levels to those witnessed in 2018.

By contrast, the Governments in Wales and Scotland adopted more collaborative approaches to pharmacy services and appear to more openly recognise the vital role pharmacies play in delivering primary care. With the Governments of both Wales and Scotland providing additional funding early in the financial year, pharmacies across the borders, whilst not immune to pressures, benefit from a far steadier market environment.

Monthly Avg NMS (New medicine services)

6.58



2017/18

Annual Avg MURs (Medicine use reviews)

287.7

2017/18

In Northern Ireland, following uncertainty surrounding funding over recent years and the continued efforts of the Community Pharmacy Northern Ireland (CPNI), it was announced that the sector would see additional funding awarded for 2018/19 and 2019/20. Whilst below that outlined in the Cost of Service Investigation for Community Pharmacy in Northern Ireland (COSI), the Department of Health has indicated that additional transformation funding will be made available to the sector. This will be regarded as positive news for the sector and will inject momentum into the market, as confidence for the future returns.

DISPENSING AND SERVICE ACTIVITY

Analysis of the NHSBSA dispensing data for 2017/18 shows that average monthly dispensing remained relatively static in comparison to prior years at c. 7,300 items. Further analysis highlights that despite the funding cuts and associated cash flow pressures, many contractors failed to fully capitalise on service income available through Medicine User Reviews (MURs) and the New Medicines Service (NMS). On average, contractors lost out on an estimated £3,200 of MUR income and depending on payment thresholds achieved, approximately £9,000 of NMS activity per pharmacy, with independent contractors fairing the worst.

BREXIT

Having already reported a reduction in the number of EEA and overseas pharmacists, any further reduction may result in a shortage of pharmacists, which could increase wages and cost pressures.

Sourcing medicines from around Europe, the UK pharmacy sector is dependent on a free trade agreement with the EU. Should the Brexit deal agreed disrupt or completely sever free trade, the supply of drugs could be severely affected, leading to price increases that would in turn impact gross margins. Discussions have already pointed to the potential stockpiling of drugs to mitigate the disruption of supply. The value of the pound following Brexit could also potentially increase the cost of imports, contributing to cost pressures on drug suppliers and ultimately retail pharmacies.

As we progress into 2019, supply issues have already been reported by the NPA. In February readiness of potential supply disruption, the Government has implemented The Human Medicines (Amendment) Regulations 2019 order, which includes provisions to allow pharmacists to dispense an alternative in accordance with a 'serious shortage protocol,' rather than that prescribed by GPs.

CASE STUDY

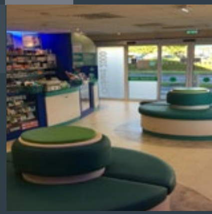
Alchem Pharmacy and Alchem Healthcare, Gloucester

In April 2018, a pair of pharmacies trading as Alchem Pharmacy and Alchem Healthcare in Gloucester were sold through Christie & Co. One was a substantial health centre pharmacy, whilst the other, a community pharmacy, traded nearby and serviced a number of care homes and MDS patients. After a short marketing campaign, the sale was agreed to a regional multiple operator off an asking price of £2,300,000.

CASE STUDY

J G Clifford Dispensing Chemist, Cambridgeshire

Christie & Co sold J G Clifford Dispensing Chemist, a well-established community pharmacy in the town of Godmanchester on behalf of a small multiple operator as part of a strategic divestment. Generating nearly a dozen offers, the pharmacy was sold to a first-time buyer.



CASE STUDY

Orchard 2000 Pharmacy, East Yorkshire

Orchard 2000 Pharmacy in Hull, East Yorkshire was sold through Christie & Co in September to small regional group operator in excess of the £2.1m asking price. Situated five miles from Hull city centre and within close proximity to five pharmacies, the integrated standard hours pharmacy dispenses over 17,000 items per month.

MARKET PREDICTIONS

Buyer appetite in the pharmacy sector will largely mirror that seen in 2018 and the market will continue to consolidate.

We will undoubtedly see more pharmacies become available for sale in 2019, many of which will offer opportunities for first-time buyers and fledgling multiples. With banks generally supportive of the sector, we also anticipate a higher volume of transactions.

Optimism surrounding a timely agreement of the 2019/20 funding settlement will recognise and more crucially reward the important role the pharmacy industry plays in the delivery of primary care.

Movement in average prices, year on year

CASE STUDY

Old School Pharmacy, Bristol

Situated within a busy medical centre in Bristol, Old School Pharmacy, a standard hours contract pharmacy dispensing circa 20,000 items per month, was sold through Christie & Co in March 2018. The pharmacy was purchased by a local operator in excess of the £1,300,000 guide price.