



England Pharmacy Market Update 2023

From the UK's leading independent pharmacy transfer agents

Trusted by the NPA and its members since 2005

If you are thinking of selling your pharmacy...
Contact **Paul Steet** today to start the discussion and find out
how we can help you maximise the value of your pharmacy.



Paul Steet

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What our clients say about us...

*I would tell anyone selling their pharmacy to invest in good advice.
We would undoubtedly recommend Hutchings Consultants and also
Hutchings Accountants. Now that our sale is complete, we feel set up for
retirement*

Mr T. & Mrs J Burley

T A Burley Pharmacy, Grimsby

*Selling your business is never easy, you question if you're doing
the right thing. Hutchings never tried to push a sale, but they
were there to support us and nurture a deal masterfully once
we made up our minds. I could literally pick up the phone
and call them any time and they would answer with absolute
professionalism to put our minds at rest and show true
commitment which is an increasingly rare trait for a service
orientated business. Having experienced several different
agencies, including the big corporates, I can honestly say that
Hutchings are the real market leaders in Pharmacy Sales."*

Mr Dhanoa

Hilltops Pharmacy, Milton Keynes



Welcome to the latest Hutchings Consultants Market Update: England 2023

Welcome to the Hutchings Consultants 2023 England Pharmacy Market Update. Our latest report reveals some of the most relevant factors affecting the current market, reviews which groups of buyers have been most actively acquiring pharmacies and offers insight on the key sale metrics of most interest to sellers and buyers alike. We also look at banks support for the sector and what changes we can expect in the sales market over the coming year. Finally, should you be considering a sale either now or in the coming months ahead, Hutchings Accountants highlight some of the main changes in taxation prudent pharmacy owners should take note of to avoid any unnecessary surprises along the way.

The Current Market

Over the last year, community pharmacy in England has remained commendably stoic in the sustained provision of essential patient healthcare whilst simultaneously battling the various persistent headwinds associated with the lingering effects of the pandemic, government funding concerns, and, in some cases, financial viability issues. A well-funded community pharmacy sector offers a viable and indispensable outlet for the ever-growing pent-up demand in primary care. In a recent poll commissioned by PSNC, 75% of respondents agreed that pharmacies should be offering more services, highlighting further that pharmacies could achieve even more if properly funded.



The recent welcome government announcement proposing an investment of £645 million in community pharmacies over the next two years is a much-needed injection of vital funds into the sector, which has had to deliver outstanding services and support to patients on diminishing returns for a long period of time now. However, as we await further clarity on the proposal, experienced contractors will be acutely aware that the devil will be in the detail as to how and where the proposed funding will be allocated. Overall, initial feedback from many pharmacy owners indicates that the latest announcement is an encouraging step in the right direction, but there remains some way to go in order to alleviate the financial and operational pressures on the sector.

The government's upcoming Primary Care Recovery Plan is a further opportunity for community pharmacies to assist in alleviating pressures elsewhere in the NHS. It is estimated that around 40 million GP appointments a year could be saved if ministers heed the call to establish an appropriately funded Pharmacy First scheme in England.

Last year's £100 million excess margin write-off offered some additional financial relief for contractors; however, inflationary pressures in the form of rising business costs, energy costs, staffing costs, interest rates, etc. persist.

The changes to 'Pharmacy Regulations' announced in April 2023, allowing 100-hour pharmacies to reduce their opening hours to 72 hours, have received mixed reviews but will offer some welcome relief to those contractors having trouble maintaining their opening hours due to staff shortages. Once implemented, the resultant reduction in staffing and operational costs should positively impact goodwill values for those considering a sale. Some standard-hour contractors struggling with similar staffing pressures may feel aggrieved not to benefit to the same extent.

Despite the wide-ranging challenges facing the sector and the wider economy, the pharmacy sales market in England was busy throughout 2022. A continuing rise in the availability of pharmacies for sale was reflected in an increase in buyer activity. Successfully completed sales last year increased by 29% when compared to 2021, confirming how resilient the market is. In the closing months of last year, one or two of the multiples started to divest pharmacies, which further increased the number of opportunities available to buyers. This divestment rapidly increased in the first quarter of 2023 and contributed to a 48% increase in pharmacy instructions compared to the first quarter of 2022.

Owing to the large increase in sale transactions over a short period of time, sale timescales have lengthened. NHS Local Area Teams, solicitors, banks, and valuers all continue to operate under significant workload pressure, although it is anticipated that this will begin to subside as transactions complete over the coming months.

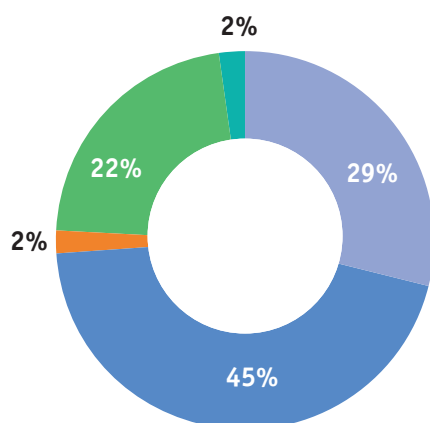
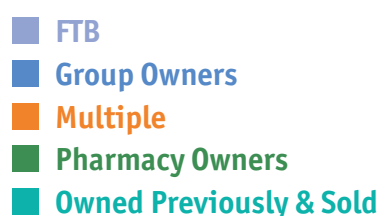
Buyer Activity

Reassuringly, pharmacy buyers' confidence and desire to acquire continue to override genuine concerns around government funding for the sector and the wider economic issues currently affecting the country. Compared to 2021, we experienced an impressive 18% increase in new buyer registrations last year. However, mainly attracted by the large upsurge in acquisition opportunities that has arisen from various multiples' implementing divestment plans, the number of registrations in the first quarter of 2023 has rocketed by a colossal 202%. While the number of buyers entering the market has grown significantly over a very short period, this unprecedented increase is expected to recede over the coming months as the number of available pharmacies returns to typical levels once more.

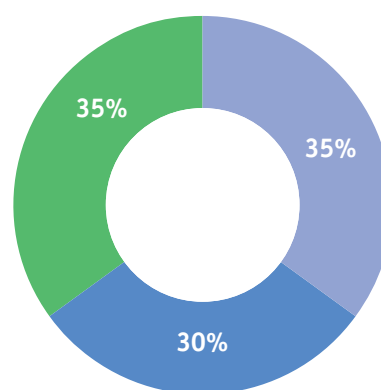
As we have seen for some time now, first-time buyers and existing pharmacy owners are the two largest groups of new registrants, with a 73% and 18% share, respectively. Interestingly, outside investors seeking to enter the pharmacy sector are the third largest group to register with a 5% share, although interest from this group of buyers has in previous years failed to convert into pharmacy acquisitions in any significant numbers.

Since the start of 2022, first-time buyers, existing pharmacy owners, and group owners have been the most active parties acquiring in the marketplace. Of these three groups of buyers, existing pharmacy owners and group owners in particular remain keen to expand their current portfolios as and when suitable opportunities arise. Amidst media rumours of further divestments or closures, some of the multiples have also been carefully acquiring. Well Pharmacies' acquisition of Lexxon UK and Assurex, both wholesalers, with the former operating 42 stores under the Knight's Pharmacy banner, and Lloyd's decision to withdraw their pharmacy services from all 237 branches operating within Sainsbury's stores are two recent contrasting announcements in the market. Following the aborted sale attempt in 2022, it is understood that Walgreen Boots Alliance is in the throes of undertaking a strategic review of Boots pharmacies, possibly with an eye to a future sale. Private equity investors are rumoured to be potential suitors.

Buyers 2022



Buyers 2023



England Goodwill Prices

Despite the many challenges the sector and wider economy have faced over the last 18 months, average goodwill prices in England have demonstrated a positive improvement. Pharmacies in London and the Southeast remain the most popular with buyers and generally attract the highest sale prices, with an average of £0.97 paid for each pound of turnover, closely followed by the Midlands with an average of £0.93p. Although the data has shown an improvement in average prices, it is important to note that this is based on past sales. More recent evidence taken from offers received and sales agreed upon would indicate that large-scale corporate disposals have applied downward pressure on goodwill values going forward. It is also important to remember that due to the numerous factors that can influence each individual business' goodwill value, some pharmacies will achieve higher than average sale prices and some lower at the point of sale. The average price data below is exclusive of any recent corporate sales, as these are yet to be completed in any significant numbers.

Average Pence in Pound

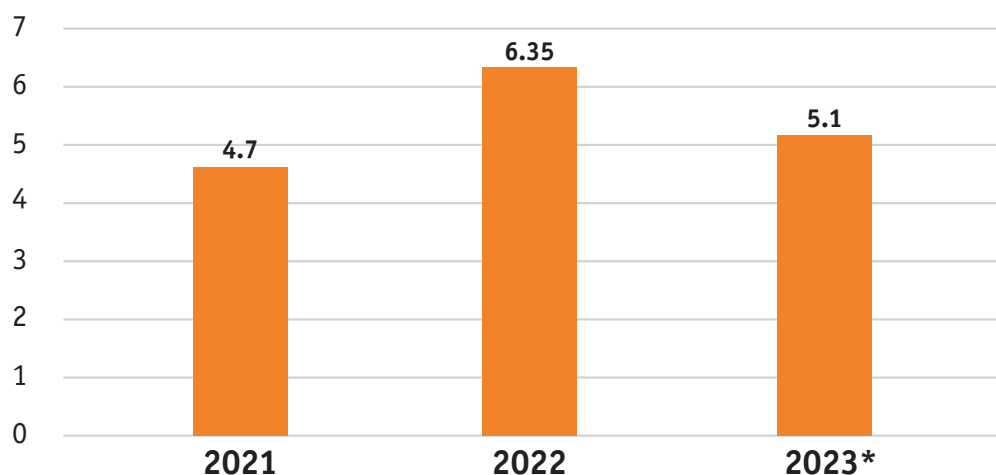


*Completed and current sales agreed since 1st Jan 2023

Average number of offers per sale

The average number of offers received per sale, when compared to the previous year, increased in 2022, driven by a combination of renewed buyer appetite and the greater availability of suitable opportunities. So far in 2023, the first quarter has shown a reduction in the number of offers received, possibly owing to the distraction caused in the market by various multiples divesting numerous shops in a relatively short period of time.

Average number of offers per sale

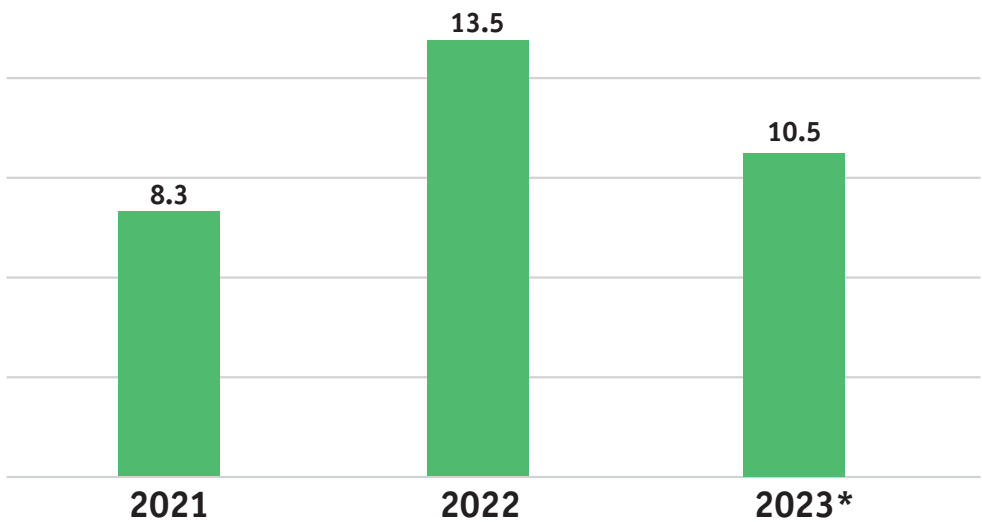


*Completed and current sales agreed since 1st Jan 2023

Average EBITDA multipliers

In 2022, a wave of lower turnover and less profitable pharmacies sold led to an increase in EBITDA multipliers. As we progressed through the year, a larger proportion of more profitable pharmacies with higher turnovers entered the market, which has resulted in multipliers reducing as these sales have started to complete in the first quarter of 2023.

Average Multiple of EBITDA

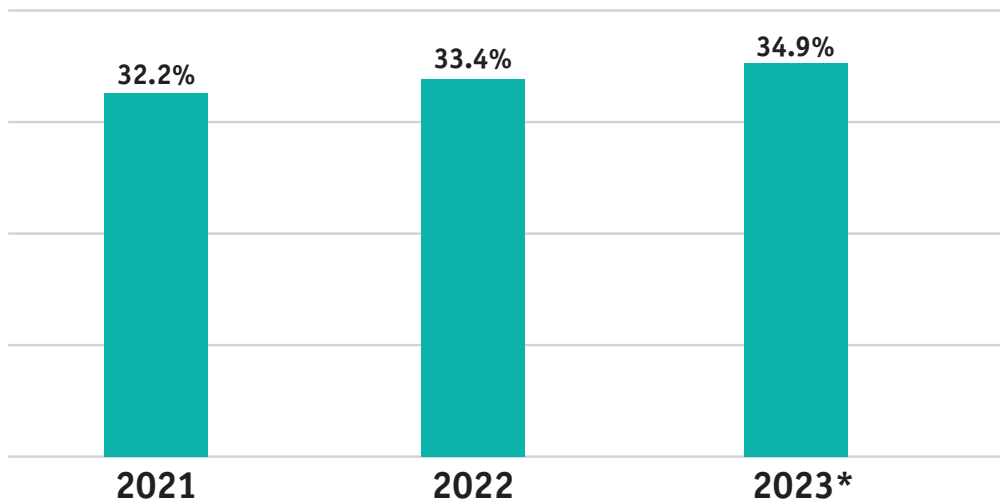


*Completed and current sales agreed since 1st Jan 2023

Profit Margins

A healthy profit margin is critical to both sellers and buyers alike and affects significantly both the saleability and final sale price of the business. Despite a combination of medicine shortages, increased wholesale drug costs, low drug tariff reimbursements and dispensing at a significant loss in some circumstances heavily influencing pharmacy profit margins, contractor’s continuing hard work and focus on the buying aspect of their business has assisted in offsetting this pressure to some degree. Average Gross profit percentage margins have shown an encouraging improvement on sales completed since the start of 2022.

Average England Gross Profit % Margins



*Completed and current sales agreed since 1st Jan 2023

Pharmacy Buyer's Finance

Banks continue to remain very keen to lend to the pharmacy sector, although events such as the pandemic, Brexit, UK government instability, and the war in Ukraine have increased inflationary pressures, which has led to higher borrowing costs for pharmacy buyers. Loan-to-value ratios have come under pressure with banks insisting on larger deposits from borrowers, usually somewhere between 20% and 30% of the value of the target business. The banks' own interest rate margin continues to hover currently between 2.5% and 3% above the base rate, whilst the interest rate hike on fixed rate loans seen over the last 6 months or so may have now stabilised. Prior to granting approval for loan applications, most Banks are demanding up-to-date financial information on the target business, such as management accounts to understand the continuing effect of rising costs on profitability.

Mr David Brewer, Managing Director of pharmacy finance brokers FTA Finance comments-

"The wider economy has performed better than many "experts" had expected so far in 2023, although the underlying issues seen during 2022 remain, and their effects may only truly be felt over the coming 12 months. Banks continue to view pharmacy in a positive manner and can clearly see that owner-managed Pharmacies are nimble, flexible, and, most importantly, profitable.

The lending appetite does, however, vary markedly from bank to bank, with some new lenders now on the scene. It is vital, therefore, that you seek to engage an independent agent to source and negotiate the most appropriate option for you."

Market Predictions for The Next 12 Months

Even though media headlines over the last year have highlighted genuine funding concerns and other pressures that exist within community pharmacy currently, the pharmacy sales market has remained strong. For many buyers, the underlying desire to buy and own a pharmacy is sacrosanct, and while banks maintain a readiness to lend; there is no reason to expect this to change in the year ahead.

The extra £645m funding announced, paired with the ability to provide more services as part of the overall package, will undoubtedly give renewed confidence to many in the sector and might suggest we are reaching a turning point in the government's approach to funding, which should in turn help stimulate further the desire to acquire in the coming years.

Looking ahead to the remainder of 2023, we anticipate that, as a result of at least some of the multiples having largely concluded their divestment strategies, the substantial increase in the number of available pharmacies will dissipate over the coming months leading to a normalisation of the sales market. The continuing shortage of locum pharmacists around the country remains a significant issue for contractors and is likely to heavily influence many owners' decisions to sell as we progress through the year. While we expect buyer confidence and appetite to remain strong over the coming 12 months, the impact of rising loan interest rates and business costs on profitability continues to be felt. This uncertainty may lead to some buyers adopting a more cautious approach when bidding on opportunities. Any contractors considering selling are advised to contact Hutchings Consultants at the earliest opportunity to plan ahead for a successful sale.

A Selection of Recent Sales Brokered by Hutchings Consultants

SOLD



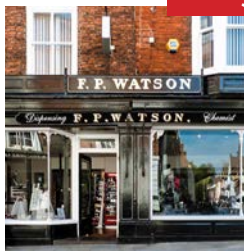
Standish Pharmacy, Wigan

Annual Turnover **£820,737**

Dispensing **6,322** items per month

30.58% GP Margin

SOLD



F. P. Watson, Lincolnshire

Annual Turnover **£848,627**

Dispensing **6,741** items per month

Standard Hours contract

SOLD



Sterling Pharmacy, Manchester

Annual Turnover IRO **£770,000**

Brand New Lease Available

Dispensing 4.534 items per month

SOLD



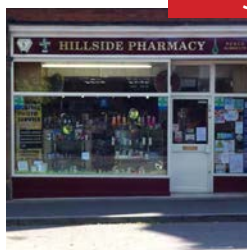
Graphictrail Ltd, Manchester

Group of 5 Pharmacies

Dispensing **37,000** items combined per month

Combined annual Turnover IRO **£4.4m**

SOLD



Hillside Pharmacy, Shropshire

Annual Turnover IRO **£984,482**

Dispensing **5,476** items per month

Asset sale

SOLD



Shivo Chemist, North London

Annual Turnover **£441,600**

Dispensing **2,485** items per month

Busy High Street Location

SOLD



Parade Pharmacy, London

Annual Turnover IRO **£1.2m**

Dispensing **6,510** items per month

Beautiful refit

SOLD



Richards Pharmacy, West London

Annual Turnover in excess of **£500,866**

32.65% GP Margin

Retirement sale

SOLD



Kings Pharmacy, London

Annual Turnover **£480,000**

Dispensing around **2,651** items per month

New 15 year lease

SOLD



Maylands Pharmacy, Essex

Integrated 100 Hour Pharmacy

Projected Turnover IRO **£1.2m**

Dispensing around **9,850** items per month

SOLD



Ricky's Chemist, Surrey

Annual Turnover **£925,000**

Dispensing **5,700** items per month

New lease available

SOLD



Tanday Pharmacy, Wiltshire

Annual Turnover IRO **£1.34m**

Dispensing around 12,162 items per month

Modern State of the Art Pharmacy

Private Deals

The current high demand has led to many pharmacy owners being approached directly by someone hoping to buy their business. However, in a competitive market such as this, the best price a pharmacy can achieve will never be the first offer on the table. Methods to realise a pharmacy's full potential include creating a competitive bidding process between multiple interested parties, or liaising directly with known, active buyers in your region to ascertain any additional premium they might pay for your location. If you are considering a private deal, make sure you know the answer to these 6 questions before you agree to anything.

01

Is the offer genuine?

Sometimes the "emotional desire" to get on the ladder can result in an initial offer that, following some more detailed analysis of the target pharmacy, cannot be supported by the buyer. It could be a genuine case that the buyer has been too keen or hasty, or in rarer situations, it can be a deliberate attempt to "hook" the seller and back them into a difficult position later in the deal when you may feel you are too far into proceedings or too committed financially to back out.

02

Do they have the necessary funds to complete?

Have they shown you credible proof that they have access to the level of deposit monies that would be required by a lending bank and how much will they need? This needs to be considered in relation to the fair maintainable profits of your business, incorporating any adjustments necessary such as market rent if you own the freehold and a reasonable pharmacist salary if you are trading as a limited company to name a few.

03

Are you 100% clear what is actually being offered to you?

There is considerable room for confusion when it comes to what is actually offered on the table by the buyer – particularly as the majority of pharmacists now trade under limited companies. The net assets or liabilities must be taken into account when considering whether an offer is comparable to market levels and moreover there needs to be a clear understanding of how those net current assets will be paid for by the buyer.

04

Are you getting the maximum price for your business and hard work?

Establishing the true market value of a pharmacy is a complex process. In any sale, the term "market value" is another way of saying "what will someone pay?" To find this out, your pharmacy must either be assessed or taken to market to gauge. In the pharmacy sector, nearly all deals are completed in excess of the lending banks valuations. This might seem like a nice problem to have, but in practice, it means that even an offer that looks attractive at first glance may still result in drastically underselling your business.

05

What safeguards do you have in place?

In order for you to consider parting with your most valuable asset, do you trust them and have they signed a confidentiality agreement? The buyer should be willing to stake a deposit in order to secure the deal if they are serious. This should be sufficient an amount and the terms and conditions of the deposit tight enough that it encourages the buyer to progress the deal quickly and at the price that was originally offered.

06

What advice will you receive around the terms of deal?

Price is just one element of an overall sale. There will be many aspects up for negotiation and some can have reaching implications, even lasting many years after the sale has completed. What is a reasonable timescale for your exposure on these elements and what should the monetary ceiling be? Seeking advice from pharmacy industry experts will help ensure you fully understand your financial and legal obligations during and long after the sale. Pharmacy is not a typical business transaction and should not be treated as such.

Taxation - What's changing?



From Hutchings Accountants Ltd

Capital Gains Tax Relief:

You may think you will qualify for Business Asset Disposal Relief (formerly known as Entrepreneur's Relief) when you sell your pharmacy, meaning you only pay 10% tax on the gain you make when certain conditions are met. However there are circumstances where you may not qualify for the relief, for example when you are trading through a limited company which also owns other assets besides the pharmacy or has a high level of cash at the point of sale.

If you think any of this could apply to you, make sure you identify the problem and take action before you sell your pharmacy to ensure you qualify for this valuable relief. If you would like us to look at this for you then please send us a copy of your latest accounts which we can review and tell you if we identify any issues. All information you send to us is, as always, treated in the strictest confidence.

In the 2020 budget, the Government changed the name of the relief from Entrepreneur's Relief 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.

Following the economic upheavals of the last few years and with a need to increase its revenue to 'balance the books', the UK government commissioned a review on capital gains tax, which is an obvious choice for change as it is currently charged at lower rates than income tax. In the 2022 budget the government announced the annual capital gains allowance would halve from April 2023, going from £12,300 to £6,000, with a further reduction to £3,000 in April 2024. There have also been calls for increasing the capital gains tax rates to bring them in line with income taxes. With national elections likely to take place next year and current polling predicting a strong lead for the Labour party, we could see a new government in the next year or so with a mandate for change.

It is possible that the new government will introduce further changes to the relief, or 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 the relief is scrapped your tax bill could well double!

If you are thinking of selling your pharmacy but haven't decided when, it's worth bearing in mind that BADR may not be around forever and your tax bill could double without it.

All in all, selling your pharmacy business is likely to be the biggest financial transaction you will ever undertake, and the tax implications can vary depending on your individual circumstances. If you're thinking of selling it's very important to take specialist professional advice at an early stage, so you can understand the factors affecting the value of your pharmacy and structure your sale tax efficiently to make sure you take advantages of all available reliefs and deductions. In fact the earlier you look at this, the more opportunities there are to improve your pharmacy value before sale and pay less tax when you do sell.

Our sister company Hutchings Accountants are specialists in pharmacy sales with many years of experience helping business owners grow their business and prepare for sale. Their advice has helped clients save hundreds of thousands of pounds in tax in some cases, so that they walk away from the sale with much more money in their pockets.

If you would like a free consultation with one of the Hutchings Accountants team, please send a copy of your latest accounts to info@hutchingsaccountants.com. All the information you send is treated in the strictest confidence in accordance with the company's privacy policy. A pharmacy specialist accountant will carry out a review of your accounts and tax position, and go through their recommendations on the steps you need to take to make your sale as profitable as possible!



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