

# Pharmacy Focus

DRIVING LIFELONG PROSPERITY

January 2024

## SPOTLIGHT ON CHANGE

*Welcome...*

Welcome to the January 2024 edition of our Pharmacy Focus. In this edition, we provide an update on the market, guide you through the process of selling a pharmacy, tell you a bit more about our team and give you an insight into the latest business intelligence tools.



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# Meet the Pharmacy team

We are accountants for pharmacists and our specialist team has 20 years' industry experience. People are the essence of our team, so we hope you enjoy getting to know them better.



## **RICHARD MEDES**

**What is it like being an accountant and business adviser for the pharmacy sector right now?** At present, the pharmacy sector is really exciting, from corporate disposals, changes in funding and the impact of inflation/stock shortages on profit margin. As advisers working in the sector, this provides us with interesting challenges and, therefore, new ways to help our clients.

**How do you see the Pharmacy team changing in the next ten years?** The Hazlewoods Pharmacy team has expanded over the past few years to meet the needs of our clients. We are providing more specialised advisory services to the sector and expect to increasingly do so over the next ten years, which will no doubt change the shape of the team – watch this space.



## **JAMES CLARKE-DUGUID**

**Why Hazlewoods?** I joined Hazlewoods because it was (and is) one of the largest firms in the area and it has a great reputation for training would-be accountants.

**What would you do (career-wise) if you were not in this current job?** I would like to try my hand at being a sports commentator, provided being good at the sport was not required!



## **STEPHEN PEART**

**What do you enjoy most about your role?** I enjoy the variety of work my current role provides and the new challenges I face from my progression within the team. Being in the unique position of advising on both tax and accounting matters gives me the opportunity to deal with a wide scope of different scenarios, ranging from personal tax guidance for individual locums to restructuring advice for multiple-branch pharmacies.

**What drew you to working in the pharmacy sector?** The pharmacy sector plays an important role in healthcare services provided in the UK. The idea of being able to offer advice and guidance to individuals and businesses who are playing such a crucial role is what motivated me to pursue this sector. What drew me to the Pharmacy team at Hazlewoods in particular was Richard, whose industry knowledge and passion to help clients has been a great inspiration.



## **ALEISHA METCALF**

**What would people never guess you do in your role?** We have a number of trainees which are a crucial part of the Pharmacy team and I spend a lot of time training them in different areas of their roles.

**Tell us something that we may not know about you?** I was an Irish dancer for 16 years and was a part of a team that won the World Championships for dance drama!



## **TARA HARRIS**

**What are the hot topics you are currently talking to clients about?** Recently the corporation tax rules have been adjusted and there are now different rates depending on the taxable profit made by the company, which has also meant that the associated company rules have been reintroduced. This has been a popular discussion point. As part of this, clients are also interested in ways

that they can reduce their taxable profit which has led to conversations around capital expenditure on dispensing robots and introducing electric cars to the business.

**Do you have a favourite quote or motto?** Just one small positive thought in the morning can change your whole day!

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# Market changes, cashflow and services – an update

## PHARMACY MARKET

Over the past 12 months the pharmacy market has been dominated by the sale of the Lloyds branches to a large number of acquirers. This has meant that resources, professional advisers' time and finance has been spent on these acquisitions, which has potentially resulted in other pharmacies not coming to market in this period and the prices achieved possibly not being in line with previous years.

Many of the Lloyds branches were not producing a profit when they were acquired and will require significant time, resolution of staff and lease issues and potentially an increase in stock levels before the branch starts to make a profit and generate cash. Therefore, we have been recommending clients to allow at least six to 12 months to turn the branches around. This means that when acquiring a Lloyds branch or any branch in a similar position you need to factor into your cashflow forecast the impact of negative cashflows for the first six to 12 months.

Now that the majority of the Lloyds branches have been sold to the external parties, what does the next 12 months potentially hold for the market?

- 1) It appears the corporate owners will continue to dispose of branches, though not on the same scale of the Lloyds disposal and therefore the market will be less impacted by these disposals.
- 2) Finance and interest rates will play a major part in the appetite for acquisitions in the next 12 months. The recent pharmacy groups going into administration may reduce the banks' appetite to lend to the sector and the increase in interest rates may make the return on investment not attractive for potential owners.
- 3) Following the end of the five-year pharmacy deal, the new funding arrangement in March 2024 will be key over the next 12 months in determining the profit made by pharmacies and therefore the interest in the market and the prices paid.

## CASHFLOW

The increasing drug and staff/locum costs has significantly impacted the cashflow of pharmacies over past 24 months, with many pharmacies feeling under pressure.

The underlying feeling is that the reimbursement prices for medicines have not kept up with the increasing prices from suppliers. We have compared the average increase in reimbursement prices over the past few years to the annual movement in CPI.

	Year ended 31/3/2023	Year ended 31/3/2022	Year ended 31/3/2021
Net ingredient costs	8.26	7.95	8.14
Discount	0.55	0.55	0.59
Reimbursement price net of discount	7.71	7.39	7.55
Movement	4.3%	(2.0%)	6.5%
Annual CPI	8.90%	6.20%	1.00%

As seen above, the reimbursement prices have not increased in line with inflation which would have impacted on the gross profit margin and cashflows of the pharmacy.

## SERVICES

We have also seen a reduction in the fees for the dispensing over the past three years, which could have been caused by the significant uptake in services, which is covered in further detail below. This has again led to a decrease in the profitability from dispensing.

	Year ended 31/3/2023	Year ended 31/3/2022	Year ended 31/3/2021
Average dispensing fees	1.56	1.62	1.66
Movement in fees	(3.4%)	(2.4%)	5.6%

Therefore, it is now more important than ever to perform the NHS services in the pharmacy. We have seen an increase in existing services such as NMS and CPCS over the past 12 months, as well as the new services showing significant growth. The amount of each service performed compared to 2022 has been summarised below along with the growth in items dispensed.

Summary	12 months ended 31/3/2023	12 months ended 31/3/2022	Movement (%)
CPCS	1,269,352	702,530	81%
Hepatitis C	896	153	485%
Blood pressure checks	984,930	115,419	753%
Blood pressure monitoring	55,042	4,902	1023%
Completed DMS	71,587	-	100%
Flu vaccinations	5,005,224	4,838,727	3%
NMS	2,841,637	2,094,660	36%
Pharmacy contractors - items dispensed	1,093,098,510	1,056,722,172	3%

Moreover, some of our clients have also increased their private services such as travel vaccinations and ear wax removal, as the demand from patients increases.

Overall, in the next 12 to 24 months we will potentially see a major change in pharmacy as services increase and the profit from dispensing decreases, which will drive further efficiency and automation.

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# Eight reasons to use a specialist pharmacy accountant

Sector expertise is about understanding not only how business, accountancy and tax laws work, but also how it applies in particular circumstances. Here are eight reasons why you should use a specialist pharmacy accountant...

## **AN ABILITY TO ANSWER THE MANY QUESTIONS YOU HAVE**

Working with an accountant that has more than a superficial knowledge of your sector means that they will be in a much better position to help you when it comes to answering your questions, as they will understand where you are coming from and what you mean. Moreover, having a sector-specialist accountant means you will be talking to an expert who speaks your language and is able to convey information in a relatable and understandable manner.

## **OFFER YOU DEPTH OF EXPERTISE AND EXPERIENCE**

Whilst general accounting practices still apply to the pharmacy sector, there are some rules and regulations that are specific to the industry - does your adviser have the depth of experience to be able to offer you a full service?

A specialist pharmacy accountant and adviser works with pharmacies on a full-time basis, as well as with key sector organisations, so they understand not only the challenges but also the opportunities available in the industry.

## **PLANNING FOR THE FUTURE**

Short, medium and long-term plans should be regularly on the agenda when you speak to your adviser, and a specialist adviser may be able to put opportunity your way. For example, if you are looking to expand, they should be able to put you in touch with the right people or highlight acquisition opportunities.

## **STRATEGIC THINKING**

Does your accountant come up with ideas, or are you simply receiving a compliance service? Most accountants can prepare your year-end accounts and file your tax returns, but the good ones come up with ideas and suggestions, and even challenge your thinking.

## **KEEPING YOU UPDATED**

Sector updates are informative and enlightening, especially when we are often so busy with the 'day job'. Your adviser should be sending you succinct and relevant sector updates that are thought-provoking and help you generate ideas for your business.

## **INTRODUCING YOU TO THE RIGHT PEOPLE**

Your adviser should be introducing you to other experts in the sector who can help you grow your business - whether that is an experienced lawyer or banker, there is nothing like a personal recommendation.

## **HELPING YOU MAXIMISE CASH AND MINIMISE TAX**

Your adviser should be keeping an eye on the way that you extract your monies from the business with a view to keep as much in your pocket as possible, rather than HMRC's.

A specialist pharmacy accountant has several clients in the same sector, so they will be familiar with any sector-specific tax saving initiatives, allowing them to provide an action plan tailored to your individual needs.

## **GREATER PEACE OF MIND**

At a time of financial pressure on NHS budgets and fast technological change, you will have much greater peace of mind if you work with an accountant and tax adviser with the right kind of background and specialised understanding of the business and its industry.

This will allow them to provide you with relevant information on topical issues affecting the pharmacy market, timely business advice and customised support that will help you realise your potential and achieve your goals.



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## HOW HAVE WE RECENTLY HELPED OUR CLIENTS?

### Supplier price audit

The client was concerned that the final prices being charged by the wholesaler did not match what they were quoted and what was entered into their buying system. Using our pharmacy experience and liaising with our in-house Business Intelligence team, we were able to perform a price audit check, which led to a significant amount being claimed back from the wholesaler.

### Profit/performance improvement

Our clients are always looking for ways to improve the profitability of their pharmacies. We were able to advise clients using our experience and benchmarking data, directing them to areas where they could improve, which were perhaps not considered up to that point.

### Acquisitions

When clients were recently looking to acquire additional pharmacies, we were able to use our knowledge of the sector along with our industry-specific benchmarking data to highlight risk areas, potential profit improvements and opportunities to expand the business, enabling them to act quickly following completion of the acquisition.

Our specialist team of pharmacy accountants and business advisers understand the unique problems you face and can support you, leaving you to focus on providing an exceptional service to clients. Please get in touch with the team should you have any further questions on how we can help you.





# A roadmap to selling your business

Is this the year you decide to sell your business, tempted by new and exciting opportunities on the horizon – whether that is reinvesting in another business, taking a well-deserved break or even retiring? Take a look at our roadmap below to understand the full process and what is involved.

## PREPARATION

### 1. APPOINT PROFESSIONAL HELP

Involving both accountants and legal advisers early will help to get your business in great shape and maximise value.



### 2. PREPARE FOR SALE

Get your financials in order, remove non-essential costs to maximise the EBITDA of the pharmacy, review your management structure and prepare forecasts to demonstrate any growth potential.



### 3. GET A PROFESSIONAL VALUATION

This is an art not a science. It is important to look at elements which may add value such as low competition, proximity to the surgery and new housing estates.



### 4. CREATE SALES LITERATURE

An attractive Information Memorandum will act like a sales brochure, giving you the chance to present your business in the best possible light to potential buyers.



### 5. FIND A BUYER

If you do not already have a purchaser (e.g., your existing management team), your advisers can research the market for good candidates.



## TAKE TO MARKET



## 6. NEGOTIATE WITH THE BUYER

Your advisers will work to get the best deal on your behalf. Some purchasers may want to defer consideration to allow them to pay in stages or link the sale price to the performance of the business via an earn out. Make sure you are aware of all the options and their implications.



## 7. COMPLETE DUE DILIGENCE

The purchaser will need to scrutinise your business before finalising the transaction and your professional advisers will manage this process. This can take time, and being open and upfront from the outset is key to maintaining trust.



# COMPLETE THE DEAL

## 8. TAX STRUCTURING

By constructing the deal in a tax-efficient manner, you can minimise tax and maximise profit.



## 9. COMPLETION

Congratulations, your advisers will now push the deal over the line, and you can focus on your future.



# POST DEAL

## 10. WEALTH MANAGEMENT

Whatever your future objectives are post deal, the Hazlewoods Financial Planning team can support you in putting together a tailored plan to help you meet them, ensuring you are using the proceeds in the most effective way.



If you are considering buying a business, selling your company or are looking for ways to finance your growth plans and would like to find out more about the process, our expert-led Pharmacy team can help. With specialist sector expertise spanning across our innovative team, as well as the wider market, you will receive tailored insights and guidance to suit your industry requirements.

# Business intelligence for pharmacies – our new supplier price audit tool

Business intelligence allows you to gather and analyse information in an easy and streamlined manner, and its power should not be overlooked when it comes to pharmacies.

*“Across the pharmacy sector, we have identified situations where suppliers alter pricing of medicines away from the agreed prices with the pharmacy. In most cases prices have been inflated, resulting in substantial losses for the business. The Hazlewoods supplier price audit tool delivers innovation through technology and sector-specialist knowledge, by analysing prices between the pharmacy and their supplier, and provides actionable insight to price discrepancies.”*

Contact Ketan to find out more.

## **KETAN GOVAN**

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## Contacts

Looking for further tailored advice regarding your next steps in the pharmacy sector and how we can support you? Speak to a member of the team.



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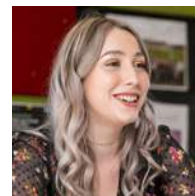
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