



Hutchings Consultants 2025 UK Pharmacy Market Update

The UK's leading independent pharmacy transfer agents



January 2025 Market Update

Welcome to the Hutchings Consultants 2025 UK Market Update Report, where we take a look back at the pharmacy sales market over the last twelve months, including key areas such as buyer activity, goodwill values, gross profit margins, and bank funding, and also look ahead at how the market may perform over the forthcoming year.

The earlier than expected general election last July delivered a Labour government widely expected to be more 'pharmacy friendly' than the previous incumbent. Shortly after the election, the newly appointed Health and Social Secretary, Wes Streeting, appointed Lord Darzi to undertake a report on the condition of the NHS, which would

feed into a new 10-year plan, the outcome of which is expected to be announced this spring. Amongst the many conclusions of the extensive report, community pharmacy was highlighted as having a key role to play in delivering healthcare solutions to patients throughout the UK and requiring further substantial support. Newly appointed Minister of State for Care with responsibility for pharmacy, Right Honourable Stephen Kinnock, said during a pharmacy visit in October, "We inherited a broken NHS, where pharmacies have been neglected for years. As we shift care out of the hospital and into the community, we will support community pharmacies and pharmacists who will be crucial to making a healthcare system fit for the future." With current severe financial pressures affecting the sector, these



**Paul Steet, Associate Director
Hutchings Consultants**
T: 01494 722 224
E: paul@hutchingsconsultants.com

If you would like to know the value of your pharmacy in the current market, or discuss your circumstances with a view to selling in the future, call or email me today.

positive statements are encouraging, but many contractors will nonetheless earnestly await the outcome of the ongoing CPCF negotiations in England between sector representatives and the government to understand better the financial outlook in the short to medium term.

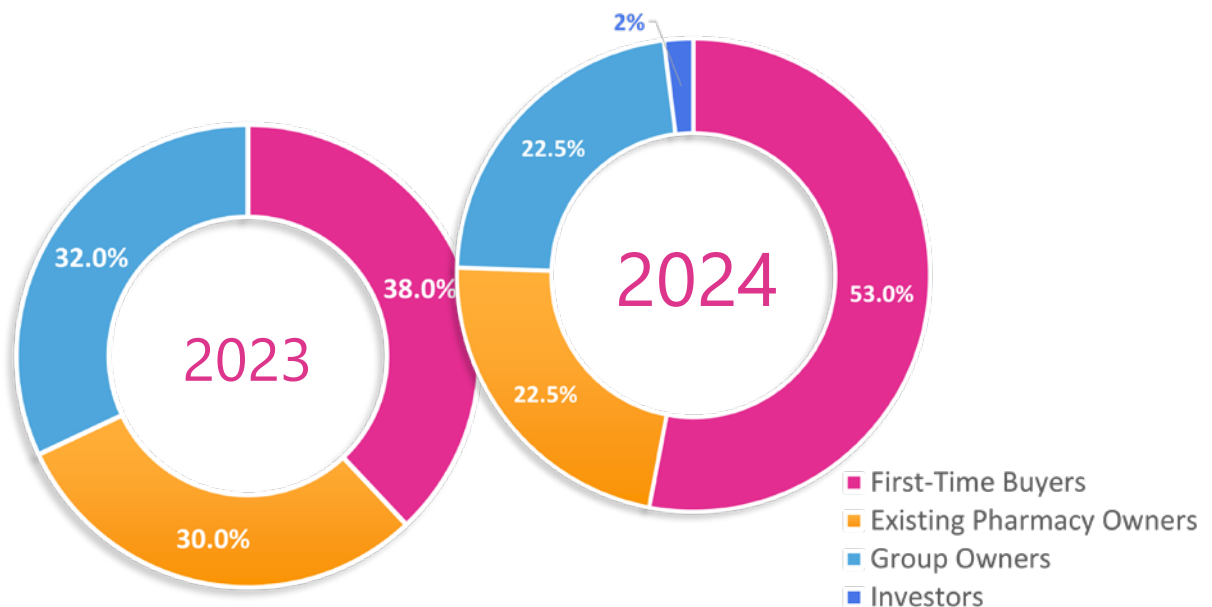
In our January 2024 Market Update we predicted pharmacy sale transaction volumes would remain relatively high, which proved true as some larger groups and multiples such as Rowlands, Boots, and Well continued to sell poorer-performing or outlier branches as part of strategic portfolio reviews. Some smaller independent owned groups also followed suit. Financial woes within the sector continued to take their toll with a marked increase in administrator led sales, adding to the number of opportunities on the market, which attracted interest from potential buyers looking to reverse poor trading performance and ensure patient services remained unaffected.

Pharmacy buyers' understandable concerns around rapidly increasing Bank of England interest rates impacting business loan costs were alleviated to some degree as improved economic data allowed rates to peak at 5.25% before reducing slightly towards the end of the year.

Overall pharmacy buyers' confidence remained high throughout the year, buoyed by the numerous opportunities available on the market and the additional income available from the introduction of patient services such as the Pharmacy First Scheme in England, emulating similar schemes already operating successfully in Scotland and Wales.

Buyer Activity

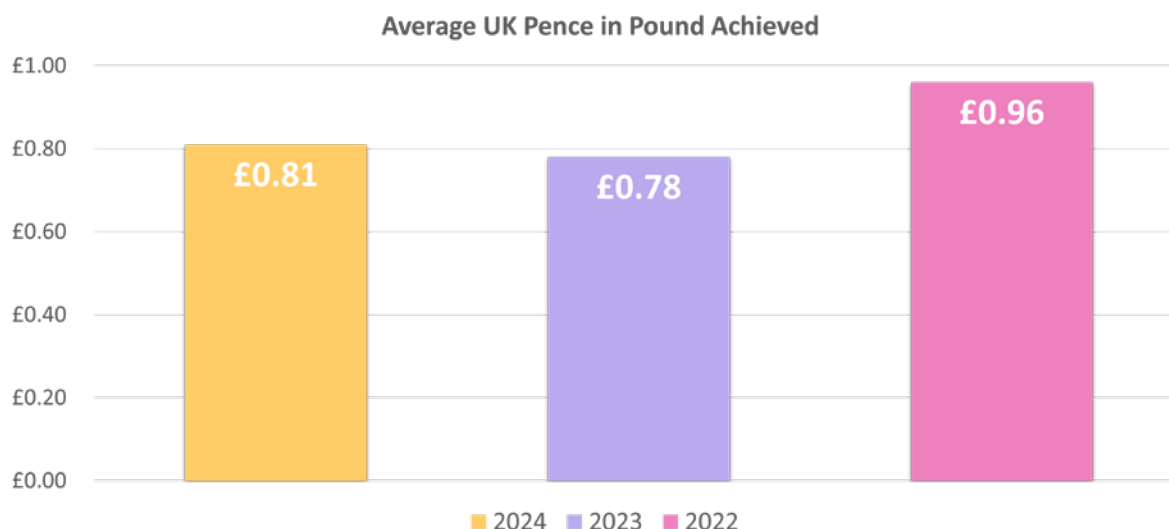
(UK sales completed England/Scotland/Wales combined)



The unprecedented level of pharmacy disposal and acquisition activity experienced in 2023 triggered a huge uplift in new buyer registrations at the time, but as expected, last year saw a return to some normality with registrations falling 46% below that experienced in the previous year. Once again, first-time buyers dominated, capturing a 79% share of total new registrations, followed by existing pharmacy owners with 11.5%, group owners at 1.51%, and the rest split between multiples, investors, and buyers who have previously owned and sold seeking to re-establish pharmacy ownership.

A review of sales across England, Scotland, and Wales shows first time buyers led acquisition activity, purchasing 53% of the pharmacies sold through Hutchings in 2024, followed by group owners and existing pharmacy owners seeking to expand with a 22.5% share each. Interestingly, investor buyers accounted for a 2% share of sales, successfully improving on the previous year, where they did not register any purchase activity. First-time buyers may have accounted for an even higher percentage of purchases over the course of the year were it not for high loan repayment costs paired together with targeted acquisitions showing low profitability, creating issues for increasing numbers of potential buyers trying to source bank funding. An emerging trend of joint venture activity between this specific group of buyers and more experienced, financially secure group owners has aided some in overcoming these funding hurdles in the current lending environment.

Average Pence in Pound



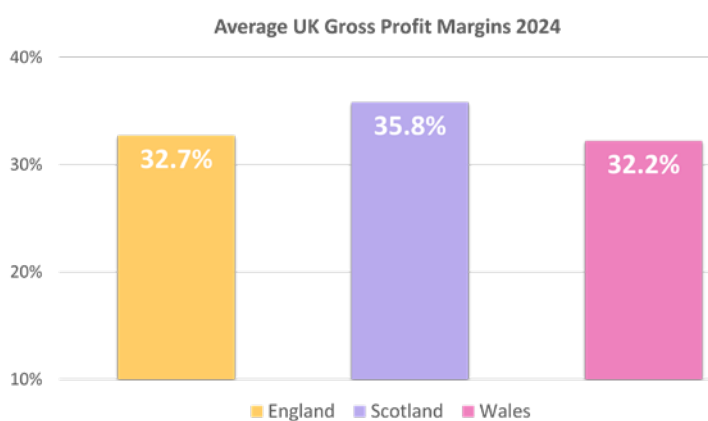
The large-scale disposal of corporate pharmacies dissipated in the early months of last year, drastically reducing the number of opportunities on the market, but was replaced to a significantly lesser degree with an uplift in branch sales instigated by smaller, multi-site operators, augmented by an increase in distressed seller activity and small independent owners keen to implement their exit plans. Generally achieving higher average Goodwill values, as opposed to the potentially riskier corporates, independent

sales helped improve UK average Goodwill values achieved over the course of the year, albeit with the support of sales in Scotland, which from recent activity indicate values are currently around an average of £1.52 pence paid per pound of turnover. Analysis of Hutchings own sales data shows offers received in England ranged between £0.31 pence in pound at the lower end, up to £1.08 and £0.39p up to £0.80p in Wales.

Average Gross Profit Margins

The impact of financial pressures within the pharmacy sector has become progressively clear in recent years, with gross profit margins continuing to come under downward pressure. Underlying issues around the supply and cost of drugs, declining levels of NHS reimbursement for dispensing activity, and a pivot towards greater patient services provision within the pharmacy contracts have led to a growing recognition within the sector that to continue trading profitably, contractors need to embrace the delivery of patient services, such as the Pharmacy First schemes (in England & Scotland) and Common Ailments Scheme in Wales.

Reflecting the greater level of perceived governmental support for community pharmacy, a review of our sales over the course of last year and recent activity shows Scottish pharmacies continue to outperform those operating in England and Wales by some distance, benefitting from a higher average gross profit margin. Pharmacy contractors in England and Wales have reported placing greater emphasis on their supply and purchase operations while improving the delivery of patient services to increase their income and supplement shortfalls from other activity. Due to the heavy influence of gross profit margins on both the business valuation and goodwill value, pharmacy contractors are recommended to keep a strong focus on improving their margin where possible.



Bank Funding

Pharmacy buyers continue to rely heavily on banks to support pharmacy acquisitions, with less than 5% of sales transacted on a cash deal basis. Some unease over the continuing impact of various financial pressures within the sector around parts of the UK, paired with an increase in administrator led sales in 2024, led to some heightened cautiousness from lenders. This resulted in bank credit teams undertaking enhanced due diligence and analysis of target acquisitions, potentially elongating deal timescales.

In marked contrast to the many rate level increases of the preceding year, the Bank of England base rate remained steady at 5.25% for most of 2024.

Improved Consumer Price Index figures in August allowed the Monetary Policy Committee some scope to begin implementing a welcome reduction in the base rate down to the current level of 4.75%, which has helped alleviate some pharmacy buyers' anxiety over potential rising loan costs for their target acquisition.



Market Outlook & Prediction

The UK government's initial messages to the pharmacy sector have been predominantly more positive than in recent years, but looking ahead, how community pharmacy fits into the longer-term vision for delivering healthcare to the nation is expected to become a little clearer when the new 10-year plan for the NHS is announced this spring. Already identified in the recent Darzi Report as '*one of the great strengths of the health service with the potential for it to deliver more value-added services*', pharmacy stakeholders will be keen to understand how the sector's undoubted capabilities can be utilised as part of an expected shift in emphasis in the delivery of patient healthcare away from overrun hospitals and back into primary care settings. Playing a key role within an integrated healthcare system, a more positive

change in outlook and vision for pharmacy from the government offers potential scope for the sector to push for greater expansion and financial resource.

In the more immediate future, pharmacy contractors eagerly await a positive outcome to current negotiations over a new 5-year CPCF deal, having endured delays and stalled talks due to last year's general election. It is hoped that discussions can be swiftly concluded and agreement reached on an improved contract providing some relief for hard-pressed contractors and their teams, from the cost of living and inflationary pressures that have impacted heavily over recent years. Ahead of any new contract agreement, we expect pharmacy profitability to remain under pressure with inflationary and cost of living issues set to continue for the foreseeable future.

Supply & Demand

Over the next 12 months we expect the supply of pharmacies entering the market to remain steady as multiple and group operators continue to implement small-scale divestments of superfluous, less profitable pharmacies as part of streamlining plans. While some independent contractors may decide to await the outcome of CPCF negotiations before choosing to sell, others will continue with their exit strategies, allowing many new owners to implement the changes necessary to enable the business to orientate towards increased delivery of patient services.

Pharmacy buyers' confidence is expected to remain positive across the country, most notably in England, where the introduction of the Pharmacy First Scheme last year introduced an additional £645 million funding injection over two years. The stabilisation of the Bank of England interest rate has settled concerns over rising costs, and it is hoped that rates will remain steady or fall further as we progress through the year. Bank lenders are expected to continue their strong focus on target business profitability when considering lending, inevitably leading to buyers remaining cautious when submitting offers.



Goodwill Values

We expect average goodwill prices to remain relatively steady in 2025 at the levels currently seen around the UK as Multiple and group operator branch disposals continue and cost pressures in the NHS and the wider economy both weigh on pricing. Agreement on an improved CPCF 5-year contract should positively affect market sentiment and goodwill values however and may prompt more independent sellers to consider approaching the market, more confident of achieving their price aspirations.



If you would like to know the value of your pharmacy in the current market, or discuss your circumstances with a view to selling in the future, call or email Paul Steet today.

Paul Steet, Associate Director
Hutchings Consultants
T: 01494 722 224
E: paul@hutchingsconsultants.com

A national agent with local knowledge

We help pharmacy owners across the UK achieve the best possible price for their business. So whether you are thinking of selling right now, or just thinking about the future, contact us today. We can discuss your circumstances, advise you where to start, or just talk about the current market.

