

NEW ZEALAND PHARMACY BENCHMARKING SURVEY 2020



COVID-19 PROVES A SHORT-TERM BOOM IN A CHALLENGING TIME

If we thought times have been tough for pharmacy businesses over the past few years, this COVID-19 year has starkly revealed the difficulties New Zealand's community pharmacies are facing. It also showed the resilience of this sector to provide the essential service it does for our community, even in the face of adversity.

The 2020 financial year concluded with the beginning of the COVID-19 lockdown. While most people were confined to the safety of their homes and many businesses were unable to operate, pharmacies were classified as essential businesses and continued to operate.

Although this came with its own unique set of challenges, many of the 154 pharmacies who participated in our

eighth annual benchmarking survey experienced significant increases in trading volume during March compared to a usual month. Although there were additional costs incurred to keep trading through this period, the increased volume boosted the performance results for the March 2020 year.

The lockdown extended beyond the end of March and April results were generally well down across the board, so while there was a short-term boom, there were some tough times that followed.

It will be interesting to see what the longer-term impact the pandemic has had when we look at next year's results.

KEY PERFORMANCE INDICATORS

(All as an average % of total sales) Average sales over 154 pharmacies is \$2,073,525

Overall KPIs	2020 Average %	2019 Average %	2018 Average %	2017 Average %	2016 Average %	2015 Average %	2014 Average %	2013 Average %
Number of pharmacies in survey	154	170	160	141	114	108	95	89
Gross profit	35.2	35.7	36.2	36.9	36.5	36.9	38.7	37.1
Mark-up	55.3	56.8	57.9	59.3	58.3	59.0	63.9	59.6
Dispensary sales	75.8	74.6	73.5	75.3	75.2	75.2	74.8	72.5
Retail sales	24.2	25.4	26.5	24.7	24.8	24.8	25.2	27.5
Cost of sales	64.8	64.3	63.8	63.1	63.5	63.1	61.3	62.9
Advertising	0.6	0.7	0.6	0.7	0.6	0.6	0.6	0.5
Computer expenses	0.5	0.5	0.5	0.6	0.5	0.5	0.5	0.5
Interest expenses	1.0	1.1	1.0	1.0	1.1	1.1	1.1	0.9
Occupancy costs	3.5	3.6	3.6	3.6	3.5	3.5	3.9	3.4
Salaries, wages and locums	19.2	19.5	19.7	19.9	19.6	19.7	19.5	18.9
Subscriptions and licences	0.4	0.4	0.5	0.4	0.4	0.4	0.4	0.4
Other expenses	4.1	4.5	4.5	4.5	4.3	4.5	4.8	4.0
Net profit before tax	5.9	5.4	5.8	6.2	6.5	6.6	7.9	8.5



**PHARMACY GUILD
OF NEW ZEALAND**



Moore Markhams is endorsed as the preferred supplier of financial and accounting services for members of The Pharmacy Guild of New Zealand (Inc).

“When everything seems to be going against you, remember that the airplane takes off against the wind, not with it.”

Henry Ford

TRENDS

Increases to both average gross profitability and average net profitability are mainly due to the month of March 2020 having particularly high volume.

Gross profit percentage reduced from 35.7 percent in 2019 to 35.2 percent in 2020 due to a combination of increased average medicine costs and price competition.

Lower interest costs because of reductions to interest rates and lower total borrowings associated with business purchases due to business values falling compared to a few years ago and banks often not funding as much of a purchase price as previously.

Extra wage costs due to many pharmacies adding additional services and the increase to minimum wages over the last few years.

Average change in	2020 vs 2019	2019 vs 2018
Gross profit	9,354.00	-6,337.30
Interest expense	-4,175.00	-1,851.18
Occupancy costs	1,418.00	223.85
Wages	14,900.00	4,634.02
Other expenses	-7,287.00	-4,892.14
Net profit	4,498.00	-4,461.84

Results are for those pharmacies that supplied data this year and last year.

BREAKDOWN OF REVENUE DERIVED BY REVENUE STREAMS

The average number of items dispensed during the year increased with the resulting additional staff required to meet the extra workload being one reason why the average wages increased. We note that the increase in average dollar value per dispensing indicates drug costs are rising.

	2020 %	2019 %	2018 %	2017 %	2016 %	2015 %
Retail sales	24.2	25.4	26.5	24.7	24.8	24.8
Script batches and other dispensary revenue	47.7	45.6	44.9	45.8	44.1	43.6
Patient charges	12.0	12.8	12.9	13.5	14.7	14.8
Core services revenue	13.2	13.4	13.4	13.9	14.3	14.3
LTC service revenue	2.2	2.5	2.2	2.1	2.1	2.5
APAS Revenue	0.7	0.3	0.0	0.0	0.0	0.0
	2020	2019	2018	2017	2016	2015
Average number of Rx dispensed	74,691	70,480	75,752	79,301	78,660	77,120
Average number of Registered LTC patients	173	171	165	169	168	181
Average number of Rx dispensed per hour	26.71	27.07	26.32	26.31	27.43	27.09
Average revenue per Rx (including drug cost)	\$22.13	\$21.48	\$20.10	\$19.58	\$20.41	\$19.54

Retail sales as a percentage of total revenue was lower than it has been in any of the previous years of our survey.

RATIOS

Ratio	Return on assets	Current ratio	Stock turn	Interest cover	Leverage cover
Formula	$\frac{\text{Net Profit}}{\text{Total Assets}}$	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	$\frac{\text{COGS}}{\text{Closing Stock}}$	$\frac{\text{EBIT/EBITDA}}{\text{Interest}}$	$\frac{\text{Bank loan}}{\text{EBIT/EBITDA}}$
Median 2020 result	13.34%	0.90	9.90	4.83	1.64
Median 2019 result	12.71%	0.91	9.94	4.56	1.52
Median 2018 result	14.58%	0.86	9.78	5.38	1.31
Median 2017 result	17.62%	0.97	9.56	5.89	2.32
Median 2016 result	15.09%	0.90	9.53	4.49	1.10
Median 2015 result	15.43%	1.00	9.58	5.45	1.80
Median 2014 result	22.13%	0.92	8.99	5.47	1.66

Buy / sell transactions over recent years are no longer commonly seeing earnings multiples at the same level when compared to earlier years. Both banks and investors are becoming more risk aware when looking at borrowing large sums of money with long payback periods. A variety of factors could be influencing this including potential new entrants, uncertainty, cost pressures, and diminishing returns on investment.

It was pleasing to see the return on assets ratio stabilise this year. There were also only moderate changes to the interest cover and leverage cover ratios. Stock turn and current ratio also remain similar, indicating management of cash flow remains tightly controlled - being able to do so efficiently is an important part of managing a pharmacy business.

REGIONAL AND OCCUPANCY KPIS

Overall	Auckland %	Other Nth Island %	South Island %	Rural %	Urban %	Alone %	Mall %	Medical Centre %
Number of pharmacies	87	47	20	31	123	80	10	64
Gross profit	35.5	34.4	35.4	35.4	35.1	34.9	35.3	35.6
Mark-up	56.0	53.2	56.8	55.3	55.3	54.3	55.1	56.4
Dispensary sales	75.6	75.4	77.8	72.9	76.5	71.3	55.3	83.7
Retail sales	24.4	24.6	22.2	27.1	23.5	28.7	44.7	16.3
Cost of sales	64.5	65.6	64.6	64.6	64.9	65.2	64.7	64.4
Advertising	0.6	0.5	0.7	0.6	0.6	0.6	1.3	0.4
Computer expenses	0.5	0.6	0.5	0.6	0.5	0.5	0.4	0.6
Interest expenses	1.0	1.2	0.4	1.0	1.0	1.0	0.5	1.0
Occupancy costs	4.2	2.5	2.7	2.3	3.8	3.3	4.3	3.7
Salaries, wages and locums	19.2	19.2	19.2	19.7	19.1	19.3	18.8	19.1
Subscriptions and licences	0.4	0.4	0.4	0.4	0.4	0.4	0.3	0.4
Other expenses	3.9	4.2	4.1	4.7	3.8	4.6	4.0	3.6
Net profit before tax	5.7	5.8	7.4	6.1	5.9	5.1	5.7	6.8

The higher costs and increased competition in Auckland resulted in lower net profit and considerably smaller businesses in general. South Island pharmacies have the highest overall net profit percentage.

Rural pharmacies have significantly higher wage costs compared to urban pharmacies, which highlights the difficulties that rural pharmacies have in attracting and retaining quality qualified workers resulting in payment of higher wages to incentivise staff. Lower other costs and higher margins still result in rural businesses recording slightly higher overall net profits.

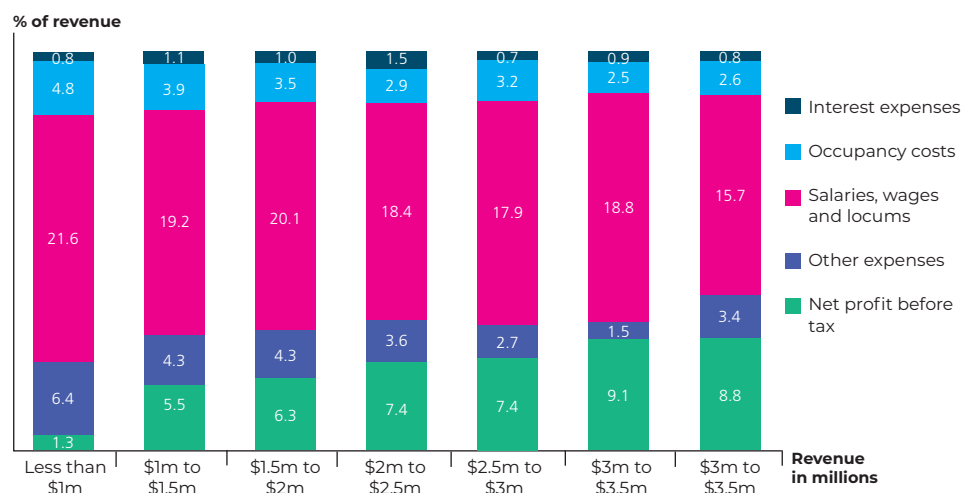
Higher gross profit percentages traditionally seen in mall pharmacies has decreased this year. This could be due to increased competition and the need to price match as consumers become more price sensitive.

Medical centre pharmacies have the highest overall net profit percentages. Standalone pharmacies have the lowest margins, the highest labour cost and therefore the lowest overall net profit.

RETURNS BY LEVEL OF REVENUE

Smaller pharmacies generate the least net profit due to the higher costs as a percentage of total sales. The level of return generated from some of these smaller businesses is quite concerning and leads us to question their viability.

A number of these businesses are in Auckland where there is significant competition. If there are close competitors and sustainable performance cannot be achieved, looking at a merger with the competition can be a good option.



PATIENT CO-PAYMENTS ON SCRIPTS

In this year's survey, we looked at the percentage of items dispensed that were subject to the standard Co-Payment charge. We found that on average 38 percent of the total items dispensed had an associated Co-Payment.

The average total Co-Payments for the pharmacies in our survey was \$121,818, compared to \$121,066 last year. This made up 8 percent of total dispensary revenue and 24.7 percent of total dispensary gross profit.

Given that Co-Payments form such a large part of dispensary gross profit and therefore overall profit, careful analysis should be completed before making any decisions around reducing or removing these charges.

IMPACTS OF COVID-19 AND THE IMPORTANCE OF CASH FLOW FORECASTING

COVID-19 has imposed significant challenges on all business owners. While it has been heartening to see how many reacted and adapted to the changing world almost overnight, most were not prepared for this both financially and operationally.

During uncertain times, cash flow is imperative to ensure a business has sufficient funds to pay its suppliers and its employees. We recommend every business should prepare a cash flow forecast that allows you to:

- Understand how much money you will have in the bank at the end of a period and how long your business can continue to survive on current sales levels
- Understand and review your fixed costs and variable costs. Are there any cost savings measures that can be achieved?
- Identify potential shortfalls in cash balances in advance so you can plan accordingly
- Evaluate performance over time and measure your actual results against forecast numbers regularly to ensure you are heading on the right track
- Familiarise yourself with where your money goes and where it comes from
- React quickly if the market changes or if you see potential problems / opportunities
- Invest in capital items as needed. Can your business afford it and will this bring meaningful benefits to the business?
- Provide your bank with regular cash flow forecasts; this is likely to be a requirement if you have a business bank loan
- See the big picture and stay motivated over the long term.

Some other things to consider:

Have you considered the turnover of your stock?

Do you regularly review your reports to identify which stock items are more popular and which items are left on the shelf for a longer period, leaving your money tied up in unfavourable goods?

Are your cost prices and margins set up correctly

in your stock systems to ensure you are making an appropriate margin?

Review your insurance policies to understand what your business interruption insurance covers and that the level of cover is adequate. Often business owners renew their annual insurance policies without reading through fine details and other changes to the policies.

For more information, please contact a Moore Markhams pharmacy specialist. You'll find details on the Pharmacy page of our website.

COVID-19 WAGE SUBSIDY

Wage Subsidy	% of pharmacies
No claim	51.82
Wage Subsidy claimed	48.18
Wage Subsidy Extension	4.38
Resurgence Wage Subsidy	1.46

Overall 48.18 percent of pharmacies surveyed made a wage subsidy claim based on their business turnover experiencing a drop of more than 30 percent over a month when compared to the previous year. For most pharmacies, this was the month of April 2020.

Of those who applied for the first wage subsidy, 9.1 percent went on to apply for the wage subsidy extension and 3 percent also applied for the resurgence wage subsidy. This indicates a significant number of pharmacies were adversely affected by COVID-19.

How do you compare?

Use this table of key data to compare your business against the market averages. Please contact your Moore Markhams advisor to discuss how these comparisons identify areas that you may be able to improve on.

Overall	Pharmacy	Your results
Average sales	\$2,073,525	\$
Gross profit	35.2%	%
Occupancy costs	3.5%	%
Salaries, wages and locums	19.2%	%
Net profit before tax	5.9%	%
Return on assets	13.34%	%
Current ratio	0.9	
Stock turn	9.9	

The data reproduced in this report has not been audited and accordingly we, nor any of our employees, accept any responsibility for the accuracy of the material from which this report has been prepared. All data has been collected on an anonymous basis.

Specialist industry knowledge

Our dedicated Pharmacy Business Development Unit works with over 150 of the community pharmacies in New Zealand (around 15 percent of the total number of pharmacies in the country). The data captured each year as part of this survey provides us with information that allows us to become more proactive and provide solutions for our clients at uncertain times.

We work with business owners by providing timely and accurate information. Our business advice and expert reporting are there to provide clear and simple advice. We're ready to work with business owners on the development and implementation of unique business strategies to help you and your business cope with the disruption of unexpected, unprecedented times.

We support business owners to focus on what they do best – building a successful business. Our team of specialists helps with a variety of accounting and business related services, including but not limited to the preparation of financial statements and income tax returns, valuations and due diligence assignments, other accounting and taxation services, mergers and acquisitions, restructures, financial forecasts and financing assistance, sale and purchase negotiations, business consultancy and advisory.

Get in touch and let us help you thrive in a changing world

www.markhams.co.nz