



NEW ZEALAND PHARMACY BENCHMARKING SURVEY 2023



MOORE Markhams

PHARMACY INDUSTRY - A DEEPER LOOK

Volume 11 of the Moore Markhams National Pharmacy Benchmarking Survey examines another interesting year for the ever-evolving New Zealand Community Pharmacy industry.

For over a decade now, here at Moore Markhams we have been closely monitoring the performance of both our clients and New Zealand's Community Pharmacy industry with the key findings being detailed as part of our benchmarking report each year.

The trends identified as part of the data analysis have allowed us to remain at the forefront of the industry and best placed to assist pharmacy business owners when making key decisions on how to take their businesses forwards. This year we managed to canvas just over 200 of New Zealand's community pharmacy businesses, approximately 20% of NZ Pharmacies. We thank those who have contributed to the reports over the years, and we hope you find the information contained in these reports to be useful.

The industry has changed significantly over that time and the 2023 financial year was no different. At the time the 2023 financial year started back in April 2022, for many pharmacies it was a case of carrying out the tail end of the initial COVID-19 booster vaccinations. Alongside the great work the industry had completed throughout the pandemic, there was uncertainty around what might come next with the pandemic no longer front of mind, all while many were crying out for a chance to come up for air after a hectic few years in which the industry was pushed to its limits like never before.

Overlay the backdrop of general economic uncertainty, inflation like we had not seen for decades, interest rates rising faster than another SpaceX rocket and labour force pressures further squeezing an already strained workforce, it would have been understandable for a pharmacy business owner to question the sanity of continuing.

However, what followed throughout the remainder of the financial year was another round of COVID-19 booster vaccinations as well as other funded services becoming available as the healthcare sector relies more and more heavily on pharmacies to deliver primary healthcare services for more patients. This allowed opportunities for many businesses to generate income from new revenue streams as they geared their businesses towards the future. There were still challenges, particularly workforce related, and I am not sure that all those that needed time out for a rest have managed to get one, but there were positive signs, and these are reflected in the financial results included in the survey.

By the end of the 2023 financial year there was also the news that patient co-payments were soon to become a thing of the past and this was expected to make a big difference to pharmacies as they navigate the post pandemic landscape (and has). As the late great Yogi Berra said, "The future ain't what it used to be". This is truer than ever, and we are excited to see where the pharmacy industry takes us next.



KEY PERFORMANCE INDICATORS

Number of Pharmacies	202	178	170	150	170
Overall	2023 %	2022 %	2021 %	2020 %	2019 %
Gross Profit	34.3	33.3	35.3	35.2	35.7
Mark-up	53.4	50.9	55.7	55.3	56.8
Dispensary Sales	77.8	79.6	77.4	75.8	74.6
Retail Sales	22.2	20.4	22.6	24.2	25.4
Cost of Sales	65.7	66.7	64.7	64.8	64.3
Advertising	0.4	0.6	0.5	0.6	0.7
Computer Expenses	0.6	0.6	0.6	0.5	0.5
Interest Expenses	0.7	0.6	0.7	1.0	1.1
Occupancy Costs	3.9	3.9	3.7	3.5	3.6
Salaries, Wages & Locums	20.3	20.2	19.4	19.2	19.5
Subscriptions & Licences	0.4	0.5	0.4	0.4	0.4
Other Expenses	3.5	3.3	3.6	4.1	4.5
COVID-19 Related Income/ Subsidies	0.3	1.2	1.7	-	-
COVID-19 Vaccination Income	1.5	4.6	-	-	-
Net Profit Before Tax	6.3	9.4	8.1	5.9	5.4

The above data shows the combined results from all of the 202 pharmacies included in the 2023 benchmarking survey. This shows growth in the proportion of retail sales as part of overall revenue as well as growth in the gross profit percentage compared to the previous year.

The wage percentage remained similar at just over 20% and most other expenses were also similar. This indicates that a lot of the additional staffing costs to do with vaccinations and other COVID-19 services that were taken on during the previous

year have remained as part of general higher levels despite the vaccination levels declining.

The major difference this year was a reduction in COVID-19 vaccination income and other COVID-19 related income/subsidies compared to the previous year.

This resulted in an overall net profit before tax of 6.3% of revenue compared to 9.4% last year. The 6.3% was still above the pre COVID-19 levels.



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).

“The future ain’t what is used to be.”

Yogi Berra

INDUSTRY TRENDS

Average Change in:	2023 vs 2022	2022 vs 2021	2021 vs 2020	2020 vs 2019	2019 vs 2018
Gross Profit	35,832	-991	14,297	9,354	-6,337
Interest Expense	-343	-3,758	-5,793	-4,175	-1,851
Occupancy Costs	1,272	2,334	-1,118	1,418	223
Wages	26,465	41,642	8,536	14,900	4,634
Other Expenses	38,103	-678	3,908	-7,287	-4,892
COVID-19 Related Income/ Subsidies	-7,388	-15,814	-	-	-
COVID-19 Vaccination Income	-39,948	115,778	37,623	-	-
Net Profit	-77,001	59,433	46,387	4,498	-4,461

When analysing the changes in monetary terms we can see that while the average pharmacy had healthy increases in gross profit, there were increases in both wages and other expenses and reductions in income from COVID-19 vaccinations and other COVID-19 related revenue which led to a large decline in overall net profitability of \$77,001.

COVID-19 VACCINATIONS

Number of Pharmacies	92	110	64	106
Overall	2023 VACCINE %	2023 NO VACCINE %	2022 VACCINE %	2022 NO VACCINE %
Gross Profit	34.5	34.2	33.8	33.3
Mark-up	53.7	53.2	52.0	50.2
Dispensary Sales	76.4	79.1	75.5	82.2
Retail Sales	23.6	20.9	24.5	17.8
Cost of Sales	65.5	65.8	66.2	67.0
Advertising	0.5	0.4	0.8	0.4
Computer Expenses	0.6	0.6	0.7	0.6
Interest Expenses	0.7	0.7	0.6	0.5
Occupancy Costs	4.6	3.3	4.8	3.4
Salaries, Wages & Locums	20.8	19.8	21.5	19.4
Subscriptions & Licences	0.4	0.4	0.5	0.5
Other Expenses	3.3	3.5	3.2	3.0
COVID-19 Related Income/Subsidies	0.3	0.4	1.4	1.1
COVID-19 Vaccination Income	3.2	-	12.2	-
Net Profit Before Tax	7.1	5.9	15.3	6.3

VACCINATION SPECIFIC

The proportion of those in this year's survey that took part in the COVID-19 vaccinations was significantly higher at around 45% of those in the survey compared to around 38% last year, indicating there were some pharmacies that initially didn't take part but have since commenced vaccinating.

Although the overall net profit as a percentage of revenue remains higher for vaccinating pharmacies compared to non-vaccinating pharmacies, the 2023

year saw a dramatic reduction in the difference in performance between those pharmacies that were COVID-19 vaccinators and those that weren't. The decrease in the overall vaccination revenue was the main driver behind this. Wage levels and other costs remain higher for those pharmacies that vaccinated compared to those that didn't.

Vaccinating pharmacies continued to generate higher retail sales and record higher gross profit percentages than those that didn't vaccinate.

REGIONAL TRENDS

Number of Pharmacies	97	69	36	42	160	107	14	81
Overall	Auckland	Other Nth Island	South Island	Rural	Urban	Alone	Mall	Medical Centre
Gross Profit	34.2	34.4	34.6	33.8	34.5	33.7	37.8	34.5
Mark-up	53.3	53.1	54.3	51.6	53.9	51.8	61.1	54.1
Dispensary Sales	79.6	78.4	71.7	74.1	78.7	76.3	55.5	83.7
Retail Sales	20.3	21.6	28.4	25.9	21.3	23.7	44.5	16.3
Cost of Sales	65.8	65.6	65.4	66.2	65.6	66.3	62.2	65.5
Advertising	0.5	0.3	0.3	0.3	0.5	0.5	0.7	0.4
Computer Expenses	0.6	0.6	0.5	0.5	0.6	0.7	0.5	0.5
Interest Expenses	0.6	0.8	0.6	1.0	0.6	0.7	0.4	0.7
Occupancy Costs	4.6	2.8	4.0	2.6	4.2	3.8	6.6	3.6
Salaries, Wages & Locums	20.2	20.7	19.8	18.7	20.6	20.6	20.2	19.9
Subscriptions & Licences	0.4	0.4	0.5	0.4	0.4	0.5	0.2	0.3
Other Expenses	3.2	3.8	4.0	3.7	3.5	3.1	5.4	3.6
COVID-19 Related Income/ Subsidies	0.4	0.4	0.1	0.4	0.3	0.3	0.3	0.4
COVID-19 Vaccination income	1.9	0.7	1.7	1.3	1.5	1.5	3.0	1.2
Net Profit Before Tax	6.4	6.1	6.7	8.3	5.9	5.6	7.1	7.1

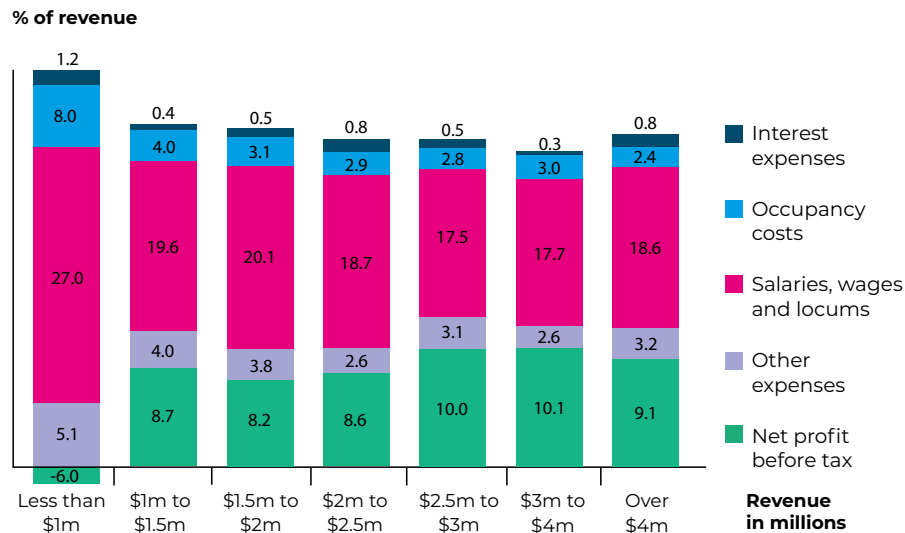
Some of the differences across regions caused by COVID-19 government policies that impacted previous year's results have now returned to trends more in line with what we were seeing pre the pandemic.

This includes the overall results across different regions being more consistent independent of location with the South Island pharmacies still returning the highest overall net profit percentage of 6.7%, Auckland was next at 6.4% and Other North Island pharmacies returned the lowest at 6.1%. This was largely due to higher wage levels for the Other North Island businesses while Auckland pharmacies had higher costs (particularly occupancy), despite having more COVID-19 vaccination and other COVID related revenue than other regions.

Rural businesses outperformed urban business significantly again after urban pharmacies benefiting more heavily from extra revenue during the COVID period. This was as a result of lower costs experienced by rural businesses, primarily wages which is true in percentage terms given these rural businesses are larger than the urban businesses.

Standalone pharmacies recorded lower profitability than medical centre or mall pharmacies. These businesses were generally smaller, so this impacts the ability to spread the costs over sales larger volumes. Mall pharmacies had higher gross profits, higher expenses and also the highest COVID related income. If the impact of the COVID income is removed, the medical centre pharmacies would have had significantly higher profitability than mall or standalone pharmacies.

PERFORMANCE BY TOTAL REVENUE



Smaller pharmacies with revenue of less than \$1m now face greater difficulties than ever before in terms of achieving sustainable profitability levels. The average net profit as a percentage of revenue for these businesses was an eye-opening loss of 6.0%. This is largely as a result of the increased costs including wages, occupancy costs, interest rates that have risen sharply and also general cost inflation.

The viability of a number of these businesses remains seriously questionable and a number of these businesses will either be forced to close if they are not able to find a way to improve their performance. Merging with other pharmacies nearby to consolidate into a larger entity is an option that can also be explored where possible.

BREAKDOWN OF REVENUE

	2023 %	2022 %	2021 %	2020 %	2019 %
Retail Sales	22.2	20.4	22.5	24.2	25.4
Script Batches and Other Dispensary Revenue	50.2	52.3	48.6	47.7	45.6
Patient Charges	10.0	10.4	11.2	12.0	12.8
Core Services Revenue	13.1	13.0	14.3	13.2	13.4
LTC Service Revenue	2.1	2.0	2.1	2.2	2.5
APAS Revenue	2.4	1.9	1.3	0.7	0.3

	2023	2022	2021	2020	2019
Average Number of Rx Dispensed	79,844	73,609	76,762	74,691	70,480
Average Number of LTC patients	166	155	157	173	171
Average Number of Rx Dispensed per hour	29.97	27.57	28.53	26.71	27.07
Average revenue per Rx (including drug cost)	\$22.99	\$23.31	\$20.60	\$22.13	21.48

While retail sales increased as a proportion of total revenue, so did Core Services revenue, LTC revenue and APAS revenue.

The average number of scripts dispensed was higher than in previous surveys and so was the average number of scripts dispensed per hour. These increases, coupled with the work relating to other additional services being offered, is consistent with pharmacists feeling they are working harder than ever before. The average number of LTC patients also increased compared to the last few years. The average revenue per script total reduced slightly to \$22.99 compared to \$23.31 last year.

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 2023 Result	16.22%	1.40	10.46	7.94	1.05
Median 2022 Result	18.72%	1.14	10.29	9.79	1.14
Median 2021 Result	18.59%	1.02	10.16	8.39	1.33
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

The table above shows some of the common ratios we look at when examining a pharmacies performance. The significant changes were the median return on assets reduced during the year given the reduction in profitability and the leverage cover ratio also reduced given the reduced profitability as well as increased interest costs for a number of businesses.

SPECIALIST INDUSTRY KNOWLEDGE

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

We work with business owners by providing timely and accurate information. Our business advice and expert reporting are there to provide business owners with clear and simple advice to assist with running their businesses. We're ready to work with business owners on the development and implementation of unique business strategies to help you and your business take advantage of opportunities to grow.

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 & due diligence assignments, other accounting & taxation services, mergers and acquisitions, restructures, financial forecasts and financing assistance, sale and purchase negotiations, business consultancy and advisory.



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