

PHARMACY INDUSTRY -A DEEPER LOOK

What do the coronation of a new monarch, a Barbie movie, a faltering local economy, the election of a National government and disappointment at the Rugby World Cup all have in common? Only a few of these events may have had a direct impact on the NZ Pharmacy industry but the common theme is that they all occurred during the 2024 financial year. With these events and so many other things happening during this period, it will have been a very busy year for many of the readers of this report, as it also was for many of the pharmacies we looked at as part of the twelfth edition of our annual National Pharmacy Benchmarking Survey. But as the clock strikes 12 – do pharmacies need to rush home from the ball or is there a fairy godmother waiting to help them? Read on to find out.

The major factor that impacted the results for the 2024 year was the removal of the \$5 co-payment charges from 1 July 2023 through to beyond the end of the financial year. During this 9-month period to 31 March 2024, we saw the average number of scripts being dispensed rise significantly and revenues therefore rose accordingly.

Pharmacies that were previously not charging these co-payment amounts to some or all of their patients would have immediately seen a boost in gross profitability on a per script basis. However, a few of these businesses experienced a drop in the total number of scripts dispensed, as they no longer had a price advantage over their competitors when trying to attract patients.

However, in general, the removal of the co-payments led to increases in the gross profitability of pharmacy businesses. Although since the end of the 2024 financial year the rules have been changed and

co-payments have been reintroduced, given these have been targeted at specific patients only, most pharmacies have been reporting that well over 50% and at times up to 80% of their dispensing's have remained exempt from co-payment charges and script numbers don't appear to have dropped significantly.

Other services continue to play a growing role in the composition of the businesses of community pharmacies. The 2024 year saw the trial of the Minor Ailments programme which many pharmacies implemented very well and showed how currently pharmacists skills are being under utilised by a health system that is under resourced elsewhere.

COVID vaccinations were still a factor in the financial outcomes recorded by pharmacies although the gap between those that do or don't vaccinate is not as big as it was a few years ago. It remains to be seen what volume of these vaccinations pharmacies will continue to administer going forwards and also what other opportunities will present themselves along the way.

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KEY PERFORMANCE INDICATORS

Number of Pharmacies	190	202	178	170	150	170
Overall	2024 %	2023 %	2022 %	2021 %	2020 %	2019 %
Gross Profit	34.6	34.3	33.3	35.3	35.2	35.7
Mark-up	54.2	53.4	50.9	55.7	55.3	56.8
Dispensary Sales	82.4	77.8	79.6	77.4	75.8	74.6
Retail Sales	17.6	22.2	20.4	22.6	24.2	25.4
Cost of Sales	65.4	65.7	66.7	64.7	64.8	64.3
Advertising	0.5	0.4	0.6	0.5	0.6	0.7
Computer Expenses	0.6	0.6	0.6	0.6	0.5	0.5
Interest Expenses	0.7	0.7	0.6	0.7	1.0	1.1
Occupancy Costs	3.6	3.9	3.9	3.7	3.5	3.6
Salaries, Wages & Locums	20.3	20.3	20.2	19.4	19.2	19.5
Subscriptions & Licences	0.4	0.4	0.5	0.4	0.4	0.4
Other Expenses	2.9	3.5	3.3	3.6	4.1	4.5
COVID-19 Related Income/Subsidies	0.3	0.3	1.2	1.7	-	-
COVID-19 Vaccination Income	1.1	1.5	4.6	-	-	-
Net Profit Before Tax	7.0	6.3	9.4	8.1	5.9	5.4

The table above shows these overall results for the 2024 year.

While dispensary and service revenues have shown strong results, retail sales as a percentage of total revenue have dropped down under 20% for the first time since we commenced preparing these reports 12 years ago and this represents a large drop off from the previous year. This will be being impacted by the economy where we have experienced a general recessionary retail environment, continued/expanding competition as well as the last few years results including some over the counter sales of COVID specific items such as masks and sanitisers that would have reduced significantly as we move past the pandemic period.

Cost pressures continue to remain strong with wage inflation and general economic inflation hitting hard during the 2024 year. Some of these cost pressures aren't immediately apparent when looking at the overall average percentages because they are masked by increasing revenues however when looking at the outcomes on a dollar basis these become clearer. Pharmacist owners will be hoping that like the general economy, there is some easing of these cost rises and the cuts to interest rates that have happened post March 2024 will help with the next year's financial performance.







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

"Before you can make a dream come true, you must first have one."

Ronald McNair

INDUSTRY TRENDS

Average Change in:	2024 vs 2023	2023 vs 2022	2022 vs 2021	2021 vs 2020	2020 vs 2019	2019 vs 2018
Gross Profit	69,224	35,832	-991	14,297	9,354	-6,337
Interest Expense	1,006	-343	-3,758	-5,793	-4,175	-1,851
Occupancy Costs	3,210	1,272	2,334	-1,118	1,418	223
Wages	41,055	26,465	41,642	8,536	14,900	4,634
Other Expenses	9,852	38,103	-678	3,908	-7,287	-4,892
COVID-19 Related Income/ Subsidies	-2,207	-7,388	-15,814	-	-	-
COVID-19 Vaccination Income	-2,092	-39,948	115,778	37,623	-	-
Net Profit	9,801	-77,001	59,433	46,387	4,498	-4,461

The average increase in gross profit in dollar terms for those pharmacies in both of the last two year's surveys was almost \$70,000 which is the highest increase we have seen. Similarly, there was a corresponding increase to the average wages of \$41,000. After allowing for other income and expenses, the overall net profit increased by \$9,800 on average.

BREAKDOWN OF REVENUE

	2024	2023	2022	2021	2020
Retail Sales	17.6%	22.2%	19.2%	22.5%	24.2%
Script Batches and Other Dispensary Revenue	56.0%	50.2%	53.5%	48.6%	47.7%
Patient Charges	7.8%	10.0%	10.4%	11.2%	12.0%
Core Services Revenue	14.1%	13.1%	13.0%	14.3%	13.2%
LTC Service Revenue	2.2%	2.1%	2.0%	2.1%	2.2%
APAS Revenue	2.3%	2.4%	1.9%	1.3%	0.7%
	2024	2023	2022	2021	2020
Average Number of Rx Dispensed	84,711	79,844	73,609	76,762	74,691
Average Number of LTC patients	196	166	155	157	173
Average revenue per Rx (including drug cost)	\$24.87	\$22.99	\$23.31	\$20.60	\$22.13

With the combination of the reduction in retail sales and the reduced patient charges from the removal of the co-payments, the amount of revenue coming directly from the government increased to nearly 75% for the March 2024 year.

For the first time we saw the average number of scripts being dispensed rise above 80,000 per year for the pharmacies in the survey, an increase of around 6% on the previous year showing that pharmacies were busier than ever. The average number of LTC patients also increased and so did the total revenue including drug cost reimbursement per script – this has been partly impacted by some pharmacies who were previously not collecting the co-payments from some or all of their patients when dispensing prior to the change in rules.

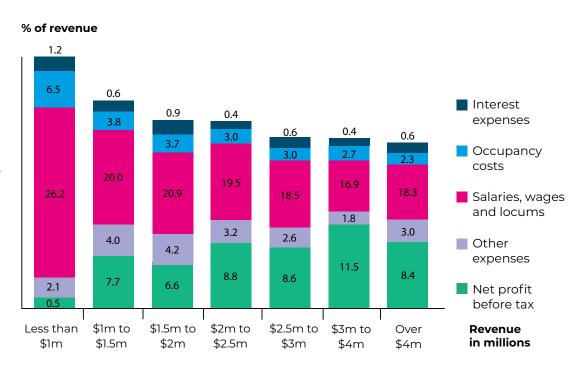
COVID-19 VACCINATIONS

Number of Pharmacies	190	73	117	
Overall	2024 OVERALL	2024 VACCINE	2024 NO VACCINE	
Gross Profit	34.6%	35.2%	34.3%	
Mark-up	54.2%	55.5%	53.4%	
Dispensary Sales	82.4%	78.7%	83.8%	
Retail Sales	17.6%	21.3%	16.2%	
Cost of Sales	65.4%	64.8%	65.7%	
Advertising	0.5%	0.7%	0.4%	
Computer Expenses	0.6%	0.6%	0.6%	
Interest Expenses	0.7%	0.7%	0.7%	
Occupancy Costs	3.6%	4.4%	3.1%	
Salaries, Wages & Locums	20.3%	21.2%	19.7%	
Subscriptions & Licences	0.4%	0.4%	0.4%	
Other Expenses	3.0%	2.5%	3.4%	
COVID-19 Related Income/Subsidies	2.9%	2.4%	0.2%	
COVID-19 Vaccination Income	1.1%	2.8%	0.0%	
Net Profit Before Tax	7.0%	8.0%	6.2%	

The following table shows the 2024 performance of pharmacies that offered COVID vaccination services compared to those that did not offer these. These results were similar to last year and showed that although pharmacies that offered COVID vaccinations had more expenses, particularly wages and occupancy costs, the overall profit was on average, higher than those pharmacies that did not offer COVID vaccination services.

PERFORMANCE BY TOTAL REVENUE

While 2024 showed some improved performance on the performance of those pharmacies on the lower end of the revenue scale. there were still many pharmacies with revenue under \$1m that recorded no profits or losses. This remains largely due to wages not being able to be spread over as much revenue as the larger businesses.



REGIONAL TRENDS

Number of Pharmacies	101	63	26	34	156	92	15	83
Overall	Auckland	Other Nth Island	South Island	Rural	Urban	Alone	Mall	Medical Centre
Gross Profit	35.4%	33.3%	35.0%	33.7%	34.8%	34.7%	36.8%	34.2%
Mark-up	56.1%	50.7%	55.2%	51.2%	54.8%	53.9%	59.1%	53.7%
Dispensary Sales	81.3%	82.6%	81.6%	80.7%	81.9%	80.4%	60.1%	86.8%
Retail Sales	18.7%	17.4%	18.4%	19.3%	18.1%	19.6%	39.9%	13.2%
Cost of Sales	64.6%	66.8%	65.0%	66.3%	65.2%	65.3%	63.2%	65.8%
Advertising	0.6%	0.3%	0.3%	0.4%	0.5%	0.4%	1.1%	0.4%
Computer Expenses	0.6%	0.6%	0.4%	0.5%	0.6%	0.6%	0.5%	0.5%
Interest Expenses	0.7%	0.7%	0.4%	0.7%	0.7%	0.8%	0.5%	0.6%
Occupancy Costs	4.5%	2.6%	2.7%	1.9%	3.9%	3.7%	6.0%	3.1%
Salaries, Wages & Locums	20.8%	19.7%	19.6%	19.2%	20.5%	21.5%	21.3%	18.9%
Subscriptions & Licences	0.4%	0.4%	0.5%	0.4%	0.4%	0.5%	0.3%	0.4%
Other Expenses	2.9%	3.2%	3.1%	3.0%	2.9%	2.5%	3.8%	3.3%
COVID-19 Related Income/Subsidies	0.5%	0.1%	0.0%	0.1%	0.3%	0.4%	0.2%	0.2%
COVID-19 Vaccination income	1.6%	0.4%	0.8%	0.2%	1.2%	1.0%	3.1%	0.8%
Net Profit Before Tax	7.0%	6.2%	8.8%	8.0%	6.8%	6.1%	6.6%	8.0%

The results for the 2024 year show that the overall profit was on average higher for pharmacies that were either in the South Island, Rural or located inside or next to a medical centre.

Auckland pharmacies have the highest costs but also the highest gross profit and the most income from other revenue streams. The Auckland businesses were significantly smaller than the pharmacies located elsewhere in the North Island or the South Island.

The split between rural and urban was not as large this year, although the rural pharmacies remain much larger than the urban pharmacies.

While mall pharmacies did not perform as well as the previous year due to reduced margins and reduced retail sales, these businesses have the highest turnover on average of the subgroups. Despite having the highest overall average profit percentage, medical centre pharmacies had lower COVID vaccination revenue.

RATIOS

Ratio	Return on Assets	Current Ratio	Stock Turn	Interest Cover	Leverage Cover
Formula	Net Profit	Current Assets	COGS	EBIT/EBITDA	Bank loan
Formula	Total Assets	Current Liabilities	Closing Stock	Interest	EBIT/EBITDA
Median 2024 Result	19.01%	0.93	10.84	6.89	1.16
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

The increased profitability for the 2024 year results in some improved financial ratio performance. This can be seen with higher return on assets averages. It is important to note that this return on assets result is of an average of the return against the book value of assets and not the market value of the assets. Some pharmacies, particularly those that haven't been sold for a long time, won't currently have intangible assets in particular, recorded at their market value in their balance.

sheets so this needs to be considered when looking at this ratio.

Interest cover and leverage cover both reduced, largely to do with increased interest rates.

The current ratio decreased below 1 this year, this is largely due to many companies declaring dividends and converting unpaid portions to shareholder loans.

PHARMACY BUSINESS SPECIALISTS

Working on a day-to-day basis with so many wonderful pharmacy business owners is a real privilege. While these businesses come in many shapes and forms, their owners generally have a lot in common with the vast majority being very passionate about their own businesses, the communities they operate in and the New Zealand pharmacy industry in general. The Moore Markhams dedicated Pharmacy Business Development Unit shares this passion and is proud of the contribution the industry has made, particularly over the last few years. The data captured each year as part of this survey provides us with information that allows us to be proactive and provide solutions for our clients.

We work with around 150 of New Zealand's community pharmacy 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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