



Irish Pharmacy Sector

M&A REVIEW 2023

INTRODUCTION

Thank you for taking the time to read the Irish Pharmacy Sector M&A Review: 2023. This report consolidates research prepared by Fitzgerald Power, the leading M&A advisor to the Irish pharmacy sector.

Our review covers the period Q1 2021 to Q4 2023. As part of this whitepaper, we consider the health of the Irish pharmacy sector, the challenges facing operators and the average enterprise valuations achieved during the 36-month review period. In total, Fitzgerald Power advised on 51 single unit pharmacy transactions. The valuation stats included in this whitepaper are based on a review of 45 of the deals that Fitzgerald Power advised on. The 6 units that were excluded from this analysis were atypical and would have skewed the findings.

We estimate there were 95 single-unit pharmacies sold during our review period. The 51 transactions represent 54% of deal activity during the review period. It should be noted that we have not included any of the large pharmacy group sales as part of our review and have only concentrated on individual pharmacy transactions and the sale of small pharmacy groups (group size \leq 4 pharmacies).

As part of our multiple review, we used the maintainable EBITDA as noted in the Information Memorandum and the goodwill consideration paid. The maintainable EBITDA per the Information Memorandum may not align with the purchaser's assessment of the maintainable EBITDA and as a result the multiples reported might not be a true reflection of the actual multiples achieved.

The aim of this whitepaper is to provide a bi-annual insight into M&A activity in the Irish pharmacy sector.



Noel Winters
Partner

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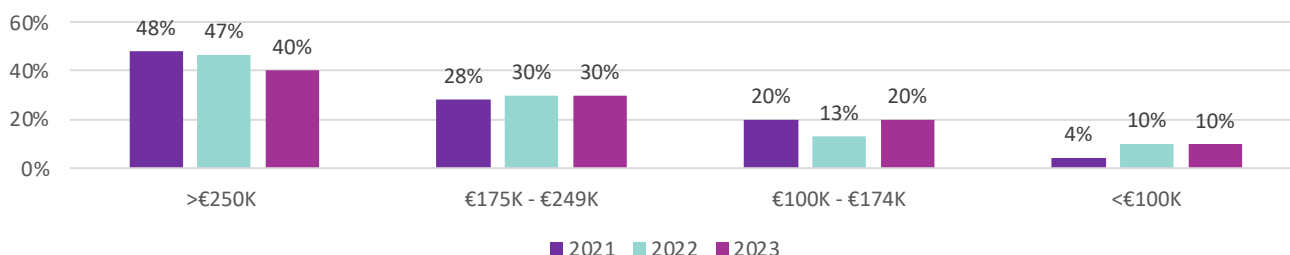
1. TRANSACTIONS

TRANSACTIONS

We estimate that there were 95 pharmacy sector transactions over the 36-month review period. Fitzgerald Power advised on 51 of these transactions.

TRANSACTIONS BY SIZE

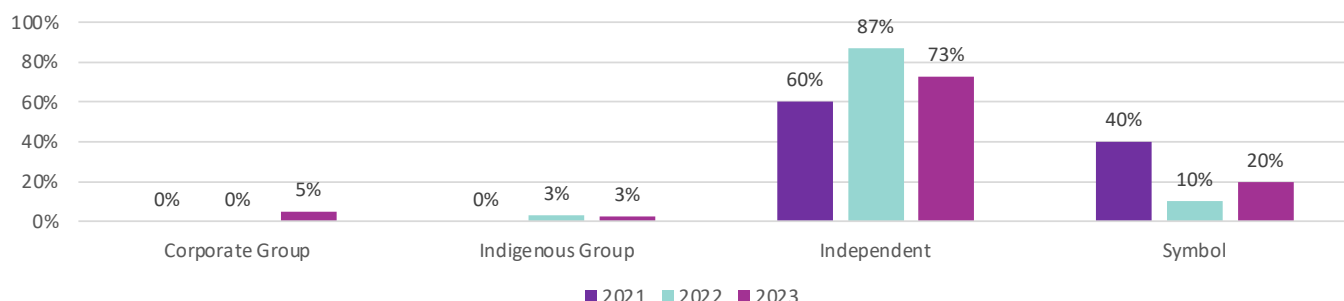
In the below table we have analysed the transactions over the review period based on annual State dispensing fees.



Pharmacies receiving state fees \geq €250K accounted for the majority of transactions every year over our review period. In 2023 there was a slight shift in the size of pharmacy sold, with lower value transactions (state fees \leq €174K) making up 30% of all deals (24% in 2022).

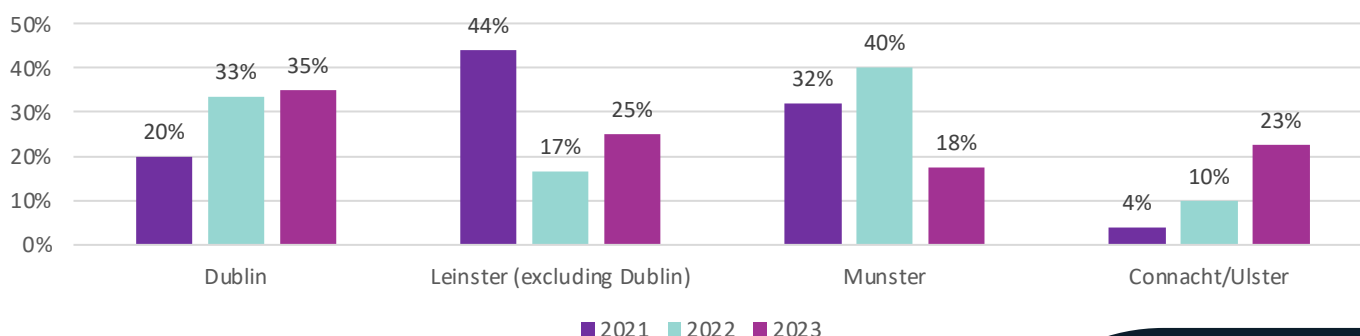
TRANSACTIONS BY TYPE

As demonstrated in the graph below, the majority of transactions involved the sale of independently owned pharmacies. However, 2023 saw an increase in symbol group disposals relative to the 2022 position.



TRANSACTIONS BY LOCATION

Dublin, Munster and Leinster (excluding Dublin) had a relatively even split of transactions over the 3-year period with 30% of transactions taking place in Munster and 29% in both Dublin and the rest of Leinster (excluding Dublin). Connaught/Ulster made up the remaining 12%.



2. VALUATION MULTIPLES

VALUATION MULTIPLES

We have estimated the valuation multiple achieved on each transaction for which we have visibility by comparing the maintainable EBITDA presented in information memorandum to the actual consideration paid (before the working capital adjustment).

The average multiple achieved over the three-year review period was 4.78X. We analysed the multiple achieved by turnover bracket and as expected, the average multiple increased in line with the increase in the size of the pharmacy, in revenue terms.

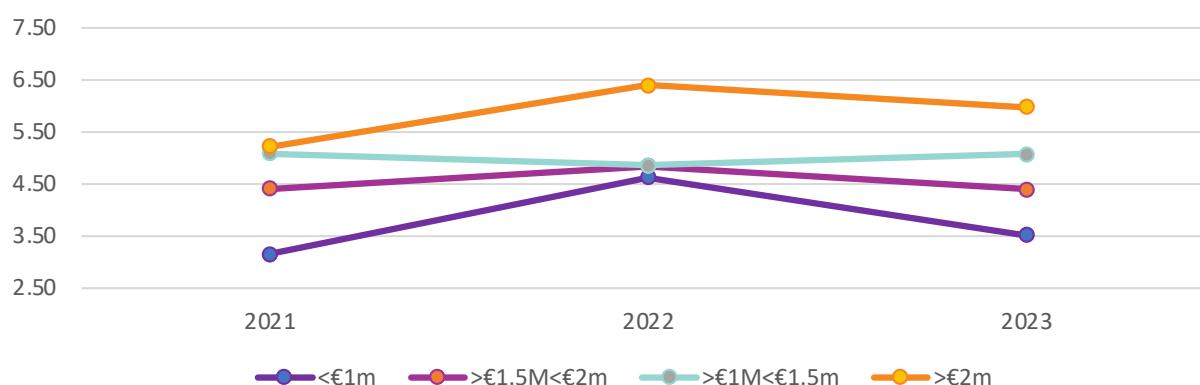
Turnover Range	Transactions	Average Multiple
<€1m	10	3.81
>€1M<€1.5m	13	4.61
>€1.5M<€2m	14	5.02
>€2m	8	5.90

The average time from the release of the information memorandum to contract signing was 6 months.

Valuations were largely consistent across the country with transactions in Dublin achieving the highest average multiple. It should be noted that 5 of the 8 >€2m turnover transactions were in the Dublin region, which has impacted the average earnings multiple achieved in this region.

Location	Transactions	Av Multiple
Dublin	10	5.22
Leinster (excluding Dublin)	12	4.70
Munster	13	4.76
Connacht/Ulster	10	4.52

2023 was a challenging year for pharmacy investors due to high inflation, interest rate increases and the availability of qualified staff. As expected, valuation multiples contracted in all turnover brackets from 2022 to 2023, apart from the >1.5M<€2m range.



3. BUYERS

BUYERS

Of the 45 transactions included in our analysis, 24 were purchased by independents and 21 by pharmacy groups (for the purposes of this report we have assumed a group to be a holding of 6+ pharmacies). The average valuation multiple achieved was 4.67x when the purchaser was an independent operator, and 4.93x when the purchaser was a group.

Group companies were the main acquirers of pharmacies with revenues in excess of €2m, acquiring 7 of the 8 pharmacies that changed hands.

Although 2023 was a difficult year for investors we expect better conditions in 2024, with interest rates expected to decline in H2 and labour supply improving. The factors that contribute to a healthy pharmacy M&A market are as follows;

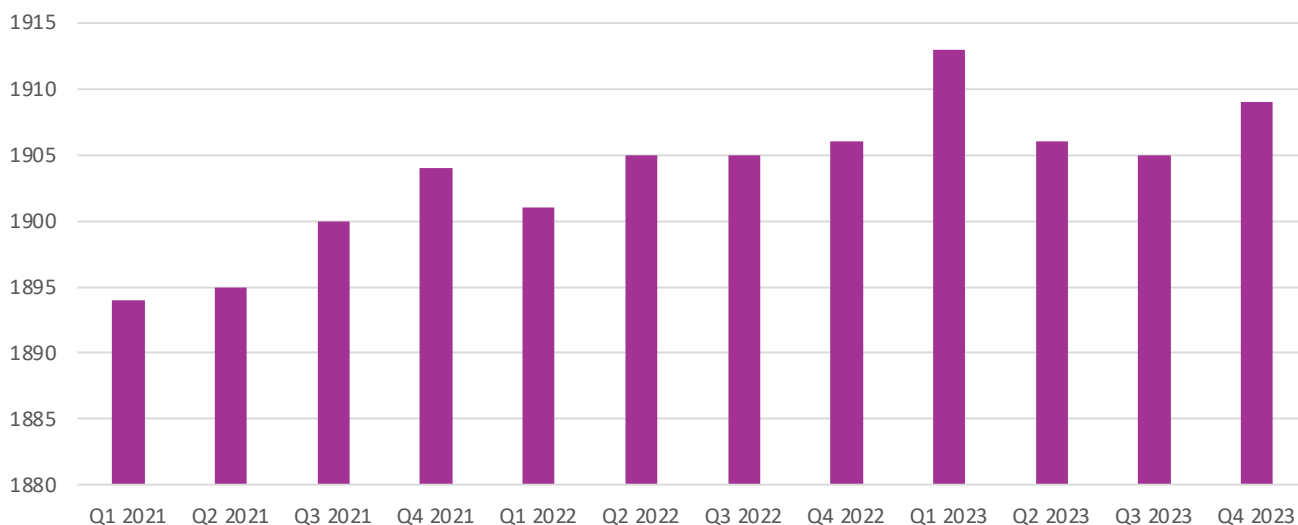
- **Market consolidation opportunities:** Opportunities for market consolidation, driven by factors such as retiring pharmacists, succession planning, and consolidators seeking greater economies of scale, contribute to a healthy M&A market.
- **Access to capital:** Adequate access to capital is imperative for driving M&A transactions.
- **Demographic factors:** Demographic trends such as our ageing population and increasing healthcare demands driven by a greater prevalence of lifestyle conditions, contribute to pharmacy market growth and M&A activity. Regions with growing populations and changing healthcare demands are often attractive to consolidators.
- **Healthcare policy and reimbursement trends:** Policies supporting increases in community pharmacy services and improved reimbursement frameworks encourage investment and expansion.
- **Macroeconomic stability:** Overall economic stability, including factors like interest rates, inflation and consumer confidence influences investor sentiment and M&A activity in all sectors of the economy.

In summary, a healthy M&A market hinges on a harmonious blend of regulatory clarity, financial accessibility, predictable capital costs, consolidator appetite and a pipeline of attractive opportunities.

4. THE PHARMACY MARKET

THE PHARMACY MARKET

The number of pharmacies in the country has fluctuated over the review period with the highest number recorded in Q1 2023 (1,913) and the lowest in Q1 2021 (1,894).



PSI data suggests there have been 70 openings and 55 closures in the period Q1 2021 to Q4 2023, bringing the number of community pharmacies in Ireland to 1,909 at the end of Q4 2023.



Pharmacy numbers have increased over the review period, but the failure rate of these new openings is high. Ownership succession can be a challenge for those that do survive, if relative scale cannot be achieved.

Fitzgerald Power maintains a distribution list of parties who are seeking acquisition opportunities. At the time of writing, there were 300 plus interested parties on this distribution list. Over the past three years we have seen a marked increase in first-time-buyers seeking acquisition opportunities. Current bank lending policies have made it very difficult for this cohort of would-be purchasers to acquire their first pharmacy. As a result, we have seen an increase in hybrid deal structures which include Management Buy-In (MBI), deferred consideration and investor partnerships.



5. THE PHARMACY LABOUR MARKET

THE PHARMACY LABOUR MARKET

As noted previously, the pharmacy labour market has been an important consideration for both vendors and acquirers, over the last three years.

THE IMPACT ON ACTIVITY

1. Over the three-year review period (2021 - 2023) there has been significant labour supply issues, particularly in relation to qualified employees. This has driven some operators to sell their business earlier than expected (from an age profile perspective).
2. There has been a shift in employee sentiment, with more emphasis on better work/life balance.
3. The exit of full-time pharmacists from salaried positions to the locum market has put considerable strain on pharmacy operators, particularly in relation to securing staff member tenure.
4. Wage inflation has had an impact on profits and valuations. Based on Fitzgerald Power data, we estimate the average full time supervising pharmacist hourly rate to have increased from €37.83 per hour in 2021 to €44.29 in 2023, an increase of 17%.

POST ACQUISITION LABOUR CONSIDERATIONS

1. Staff may seek pay increases from the new owners.
2. Staff retention.
3. Staff availability has been a major concern for potential purchasers. However, with the increase in the number of non-national pharmacists (see table of registered pharmacists – 340 new entrants in 2023 compared to 105 new entrants in 2021), it is expected that there will be a softening in terms of pharmacist salary rates and supply.
4. Wage inflation has been an issue for purchasers as well as vendors. The recent decrease in locum rates has benefited all operators.
5. Government policy-based labour cost inflation, to include;
 - (a) Pension auto enrolment
 - (b) An increase in the national minimum wage from €11.30 in 2023 to €12.70 in 2024. This is an increase of 12.4%.
 - (c) Increases in employers PRSI.





6. OUTLOOK FOR 2024

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The pharmacy sector has encountered significant challenges over the past three years but some of these challenges appear to be softening with decreases in inflation (1.7% per CSO at the time of writing, down from a high of c.10% in 2022) and improvements in the supply of labour.

Fitzgerald Power's corporate finance team has been busy in the first quarter of 2024. We have received a greater number of enquiries/instructions to bring pharmacy assets to the market than in any other Q1 period. Additionally, we have received numerous approaches from prospective purchasers which should lead to a very active pharmacy M&A market in 2024.

There has been consolidation at the top of the market in recent times with Phoenix purchasing the McCabes Group and Uniphar acquiring Hickey's and McCauley Chemists.

Group consolidation is expected to continue in 2024.

In our opinion there will be more hybrid deal transactions in 2024, which will help first-time-buyers purchase their first business.

As with all Irish SMEs, government policy will have a significant impact on the future profit profile and valuations in the sector. Pension auto enrolment, increased minimum wage rate and payroll taxes will lead to some profit erosion.

How can we help?

Our team is dedicated to providing you and your business with the absolute best financial advice out there. We approach each and every case from a fresh perspective, working with you to find tailored solutions that leave your business feeling stronger than ever. With our expert analysis, we translate figures into a language you can understand. Using timely, reliable advice, our experienced team of experts devise sophisticated plans to encourage cost efficiency and growth. If you would like to discuss this research, contact our team at Fitzgerald Power today.

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