

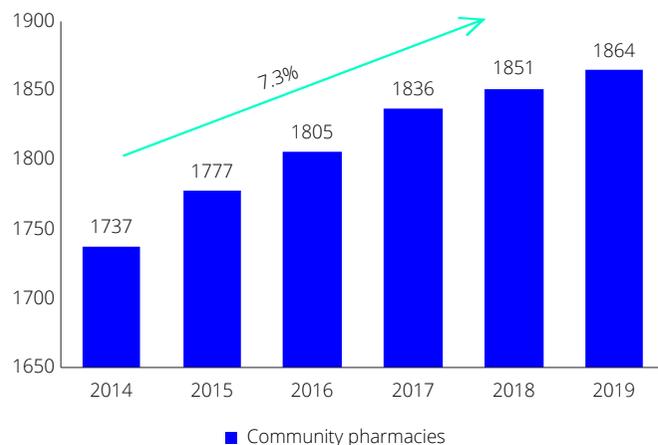
Community Pharmacies

2020 H1 Insights

On 11 March 2020, the World Health Organization declared COVID-19 a pandemic and noted its alarming levels of spread and severity. The pandemic illustrated the vulnerability of our health system and its supply chain as it bore the full brunt of COVID-19 and responded quickly to “flatten the curve” and save lives. Community Pharmacies quickly responded to COVID-19, introduced innovative changes and focused on patient needs. Pharmacies with a high dependency on retail sales have experienced a considerable drop in turnover.

Community Pharmacy Market

- The Irish Pharmacy sector remains a fragmented market, though consolidation is increasing. Despite industry predictions since 2014 that the number of retail pharmacies would reduce, the numbers have risen.
- At the start of 2020 there were 1864 community pharmacies registered by the Pharmaceutical Society of Ireland.



Sources: Pharmaceutical Society of Ireland

Activity

- Pharmacists are the most frequently accessed healthcare professionals. In Ireland, evidence suggests that 2 million people visit a community pharmacy each month and that 20 million prescriptions are filled in pharmacies annually.
- Every year c.76m items are dispensed by retail community



pharmacies under State schemes (GMS etc.), with each item dispensed costing c. €16.29 resulting in an annual cost to the State of c. €1,227m (c.7% of the overall health spend). Private spending on medications is estimated at c. €228m.

- In recent years trading conditions have been challenging for the pharmacy sector with significant price erosion and reduction in fee income from government schemes as the State has attempted to realise savings. In parallel, the sector has experienced increasing operational costs, particularly those relating to staff and rent costs.
- These pressures have resulted in some pharmacies moving from a dispensing model to primarily a retail model where income is derived from discretionary spend which is reliant on a buoyant economy.
- Over the last 5 years, our assessment of dispensing rates and prices shows the volume of items dispensed has increased while the value of these items has decreased.

Key Development H1 2020

- During the Pandemic, benchmarking across some independent pharmacies initially showed a 9% increase in dispensing income and 30% increase in non-dispensing income for items such as hand sanitisers, off script medicines such as Vitamin C and health and wellbeing purchases. However, pharmacies with a focus on retail, in particular cosmetics and gifts, continued to report a decreased turnover with the Irish Pharmacy Union (IPU) reporting retail sales in pharmacies dropping by an average of

36% and one in five pharmacies having laid off staff (mainly retail staff for cosmetic and gift concessions where there has been a significant drop in consumer spending).

- Innovative promoters repurposed retail space to focus on patient needs including sanitisation products (gels and cleaning products), thermometers, blood pressure apparatus, vitamins and wellness products as well as introducing solutions to reduce risks of infection spread including, “one in one out” queuing system, Perspex screens, increased use of technology including ordering via phone, email, Facebook, and Apps and medication delivery for “at risk” and older patients.
- As part of the response to COVID-19 the Minister for Health signed changes in legislation which relieved some of the pressures on GPs, pharmacists, patients and nursing home residents in accessing prescription medications. These changes included:
 - **Electronic transfer of prescriptions:** Prescriptions can be sent from a prescriber to a pharmacy via an electronic system approved by the HSE and will reduce the need for a patient to attend at a surgery to collect a prescription during the emergency.
 - **Validity of a prescription for non-controlled drugs:** this is temporarily increased from 6 months to 9 months as of the date specified on the prescription.
 - **Repeat prescriptions:** Pharmacists can use the professional judgement of the pharmacist to dispense repeat medications.

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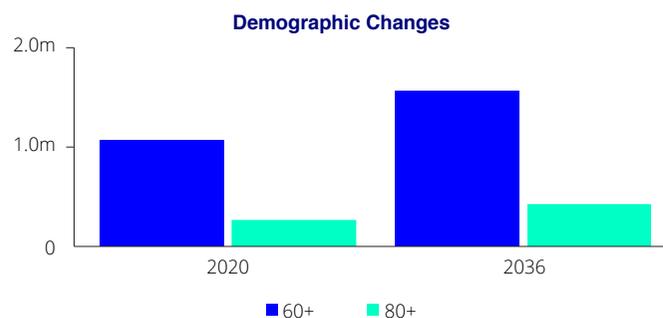
2020 H2 Outlook

Summary

- Pharmacists responded swiftly to COVID-19 and focused on patient and community needs. The demographics and corresponding rise in chronic conditions with resultant polypharmacy will continue to favour pharmacists. This will contribute to the sector recovery. A shift in focus to clinical care may result in the closure of a number of outlets and further consolidation of the sector.

Demographics and the impact on healthcare

- Ireland's population is now catching up with other European countries; by 2026 the population is projected to increase by 13% from 4.95m to 5.7m.
- The number of people aged 65 years is projected to increase by 52% from 975k in 2020 to 1.48m in 2036.
- Projected population increases are greatest for older age groups with the population aged 80 and over set to increase from 170k in 2020 to 343k in 2036, an increase of 102%. With this ageing population there will be a parallel increased use of multiple medications by patients.



Sources: CSO

Community Pharmacy Outlook

- Pharmacy owners have previously proven resilient and adapted their business model to market changes. Already, in response to the COVID-19 crisis, we are seeing examples of innovation with many introducing apps for ordering, phone helplines and delivery services while other have pivoted to online sales and a focus on wellness. We expect to see this innovation continue in H2 2020.

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- The demographics and corresponding rise in chronic conditions will continue to favour pharmacists with the Economic and Social Research Institute (ESRI) projecting demand for medicines dispensed under public schemes to increase by c.35% to >115m items by 2030.
- The numbers of pharmacies per capita is high and the sector has seen significant reform in the last decade with average income and EBITDA reducing on an annual basis. This has resulted in a sluggish transaction market with pharmacies now trading between 4 – 4.5 x EBITDA (down from 5 – 5.5 in 2018). We project similar trading for the remainder of the year in

advance of a busy 2021 transaction market.

- Financial:** Costs in the sector will continue to increase, in particular staff costs as a result of the introduction of the “living wage” and the shortage of pharmacists. Pharmacists are also reporting increased costs as a result of implementing physical distancing and safety initiatives.
- EBITDA:** The Irish Pharmacy Union (IPU) have raised concerns about maintainable EBITDA going forward and are seeking a moratorium on the deduction of the 20% withholding tax from HSE payments. I project that some pharmacies may experience a drop in EBITDA margin. This will, of course, depend on the location, competition and the business model.
- The sector is somewhat at a juncture with some pharmacists advising that they want to increase their clinical input and contribute to the implementation of Sláintecare. COVID-19 may fuel these changes as pharmacists focus on patients and their care and wellbeing and move away from retail sales. This may result in the closure of a number of outlets with a retail focused business model and further consolidation of the sector.

Bank of Ireland

Bank of Ireland understands the challenges faced by the community pharmacy sector. We are a strong supporter of the sector and will continue to work closely with our customers and communities to enable them to thrive in the coming year as they adapt to the “New Normal”.

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Sources: Bank of Ireland/ Fitzgerald Power; Central Statistics Office (CSO); Department of Health; Economic and Social Research Centre; Health Service Executive (HSE); Irish Pharmacy Union; Organisation for Economic Co-operation and Development; Pharmaceutical Society of Ireland; Programme for Government