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'Climate Change' within Pharmacy

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‘Climate Change’ in Pharmacy

“Climate change increasingly poses one of the biggest long-term threats to investments.”

Christiana Figueres on Climate Change
secretary of the UNFCCC

“It’s a collective endeavour, it’s collective accountability and it may not be too late.”

Christine Lagarde on Climate Change
Managing Director, IMF



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Agenda

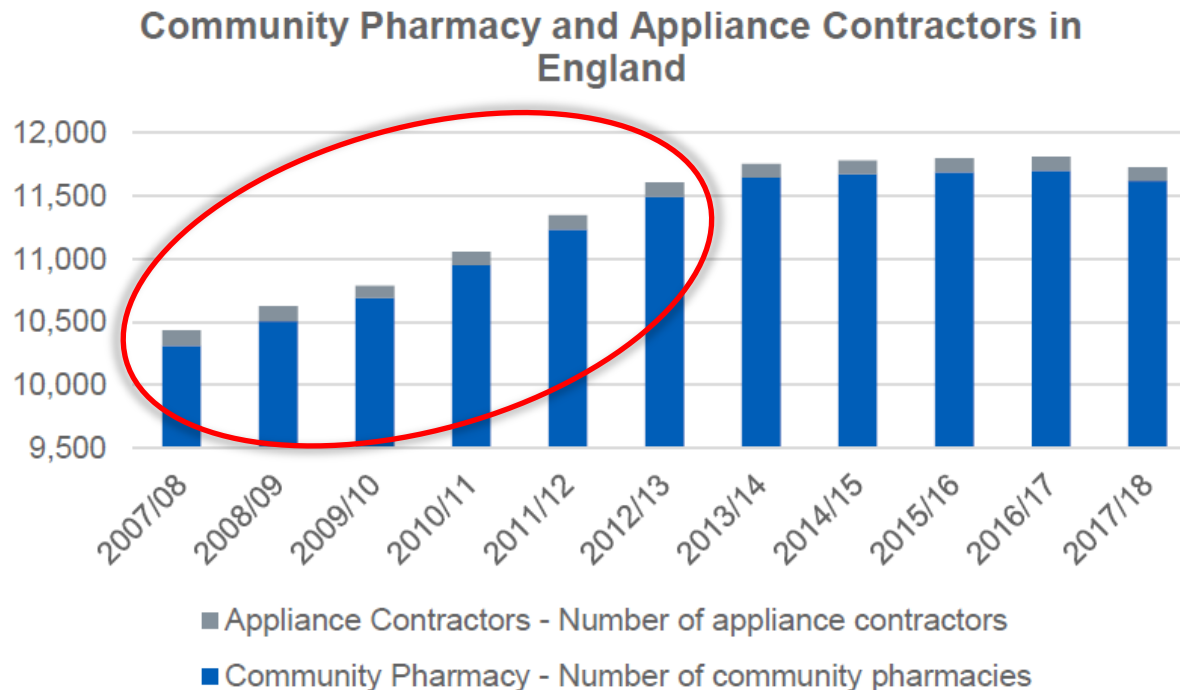
- ‘What is a Pharmacy?’
- ‘What happened between 2004/05 and 2012/13?’
- Changes to the Community Pharmacy Contractual Framework
- Pharmacy Business Impact
- Capital Value Impact
- Rental Value Impact
 - New Lettings
 - Lease Renewals
- Valuation Example (Lease Renewal)
- The ‘Per Patient’ Method of Valuation
- Valuation Development
- Future Challenges

What is a Pharmacy?

- Types of Pharmacy
 - Drug Store (OTS Medicines)
 - Registered Pharmacy / Non-Contract (OTC Medicines)
 - NHS Pharmacy (Fulfilment of NHS Prescriptions)
 - Independent, Regional Multiple and National Multiple
- An NHS Pharmacy
 - Requires a contract / licence
 - Pharmaceutical Needs Assessments (PNA)
 - Routine = Current Needs / Future Needs / Improvements / Unforeseen Benefits
 - Expected = Distance Selling / Relocations / Change of Ownership

What happened between 2004/05 to 2012/13?

- Introduction of 'Category M' Pricing (to the Drug Tariff) in April 2005
- Deregulation & Exemptions
 - Out-of-Town
 - 100-hour Pharmacies
 - Primary Care Centres



Source: General Pharmaceutical Services Report (England 2007/08 to 2017/18)
Published 2nd August 2018

Changes to the Community Pharmacy Contractual Framework (CPCF) (England Only)

- Aim
 - Reduce 'clustering', improve efficiency
 - Reduce the burden on GP's / promote utilisation of Pharmacists
- 1st December 2016
- Budgetary Saving = Reduction in funding
 - £130m in FY 2016/17 (12%; recovered between Dec '16 and Mar '17)
 - £95m in FY 2017/18 (7.5%)
 - Reductions to Establishment Payments (worth £25,100 pa >3,150 items pcm)
- Quality Payments Scheme (worth £75m, but not additional funding)
- Pharmacy Access Scheme (PhAS)
- Pharmacy Closures & Protected Consolidations
- Continued Reductions to 'Category M' Pricing
- No change in Scotland & Wales

Business Impact

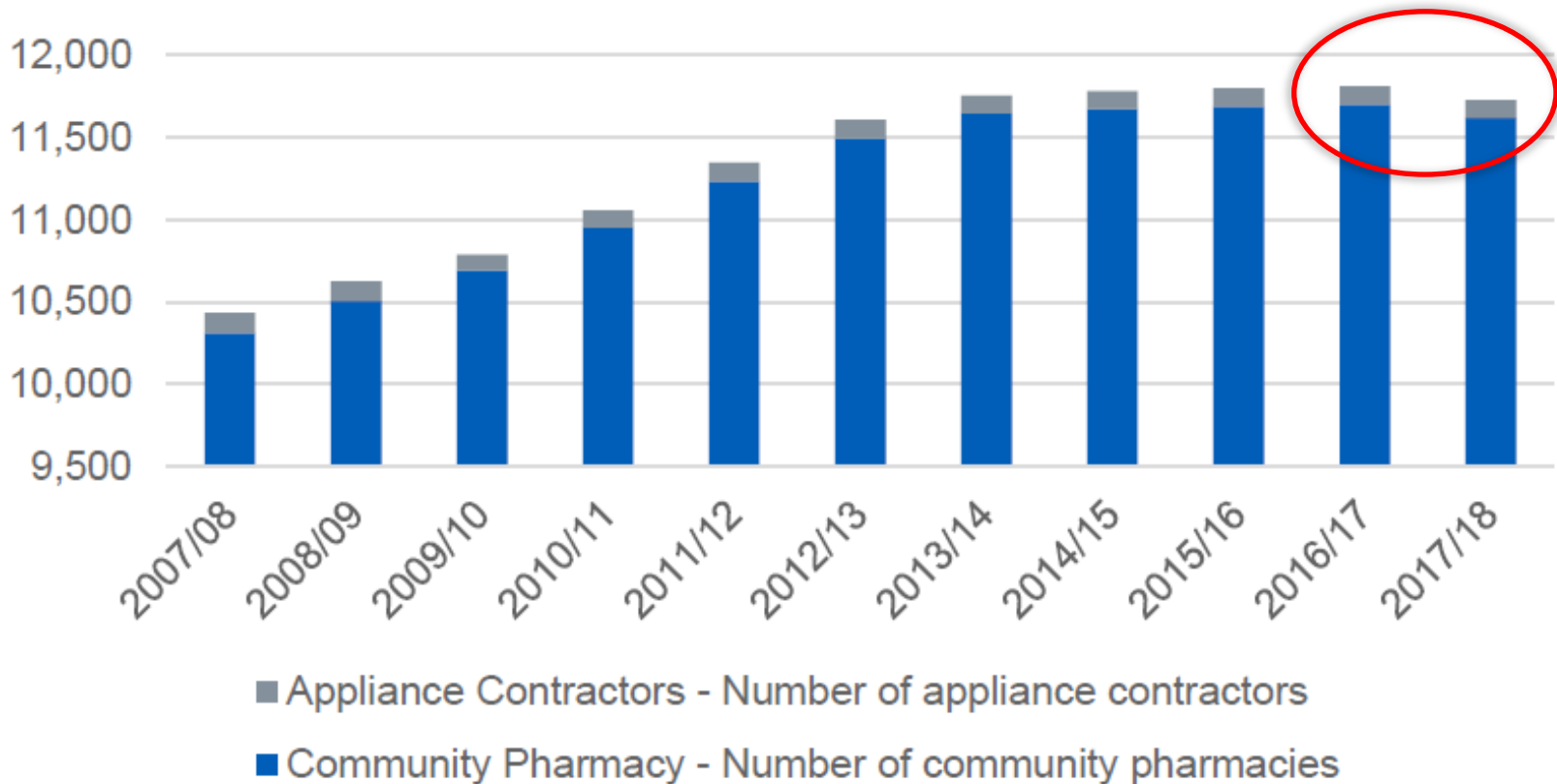
- Reduction in Pharmacy Revenue
- Co-located Pharmacies some of the hardest hit
 - NHS contract revenue typically 90% to 99% of total revenue
 - Legal / Lease Constraints
 - Physical / Safety Constrains
 - Business sensitivity
- Increased Pressure on Operating Costs
 - Business Rates
 - Salary Costs
 - Property Costs



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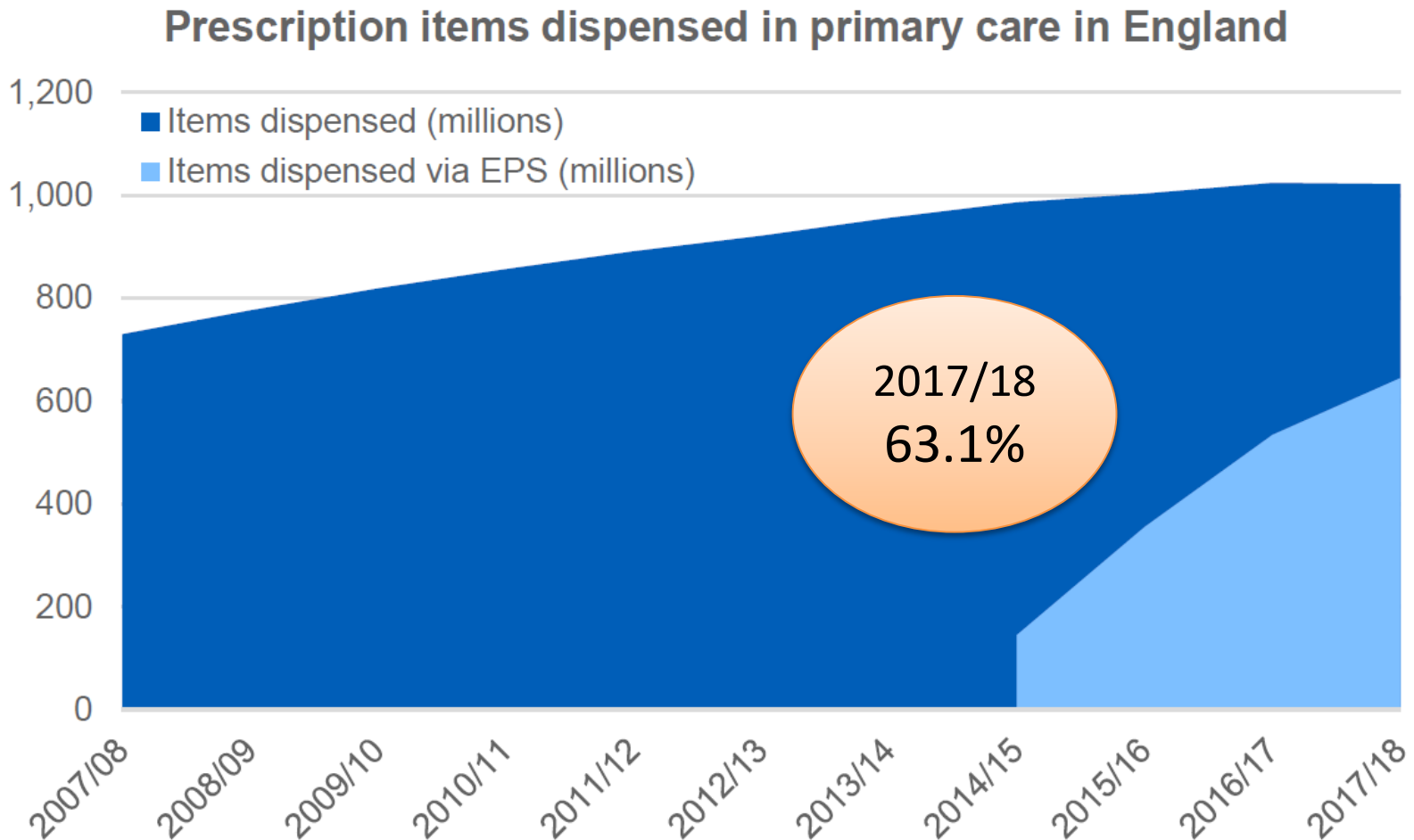
Business Impact (cont...)

Community Pharmacy and Appliance Contractors in England



Source: General Pharmaceutical Services Report (England 2007/08 to 2017/18)
Published 2nd August 2018

Business Impact – Electronic Prescription Service



Source: General Pharmaceutical Services Report (England 2007/08 to 2017/18)

Published 2nd August 2018

'Capital Value' Impact

- Value at which pharmacy businesses exchange hands
- RICS Definition of Market Value

'The estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion'

- A market transaction = simpler
- Have remained stable (for now)
- Why?
 - Difficulties in securing new NHS contracts / licences
 - Demand > Supply
- Lloyds Pharmacy Dis-investment Strategy



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'Rental Value' Impact

- Value for which property may be let at (for use as a pharmacy)
- RICS Definition of Market Rent

'The estimated amount for which an interest in real property should be leased on the valuation date on appropriate lease terms between a willing lessor and willing lessee in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion'

- Closed market = more complex / awkward
- Disparity between transaction types
 - New lettings vs lease renewals

New Lettings Vs Lease Renewals

New Lettings

- Require an NHS contract / license to be viable
- Typically associated with NHS contract / license relocations
- Closed Market
- Landlord / Tenant compulsion
- Valued on a residual / investment appraisal basis
 - Intrinsically incorporates value of the bidders possessing an NHS contract / license
 - Based on modelling forecasts
- Longer initial lease term to offset costs & secure position

Q: How do you appropriately value / devalue the above attributes?



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New Lettings Vs Lease Renewals

Lease Renewals

- Valued on a comparative basis
- 'Hierarchy of Evidence'
- Co-located Health Centre Pharmacies
- 'Special Value'

'An amount that reflects particular attributes of an asset that are only of value to a Special Purchaser'

- 'Special Purchaser'

'A particular buyer for whom a particular asset has a Special Value because of the advantages arising from its ownership that would not be available to other buyers in a market'

- Rise of the 'Per Patient' method
- Business secured (items locked in) / no cost write off



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Valuation Example (Lease Renewal)

Pharmacy in Health Centre A

- PLS 10,000
- 6 GP's
- 150 sq.ft
- Consultation Room
- Internal & External Access
- Essential & Advanced Services
- Open 54hrs to mirror GP's

Pharmacy in Health Centre B

- PLS 10,000
- 6 GP's
- 150 sq.ft
- Consultation Room
- Internal & External Access
- Essential & Advanced Services
- Open 54hrs to mirror GP's

Valuation?

Differentiation Defined

Pharmacy in Health Centre A

- Former Mining Community
 - High Levels of Unemployment
 - Elderly Population
 - High Dependency on Public Transport
-
- Items Prescribed
= 260,000 per annum
 - % of Items Captured by Pharmacy
= 75%

‘Healthy’ &
Viable

Pharmacy in Health Centre B

- Affluent Area
 - Low Levels of Unemployment
 - Middle-aged Population
 - Low Dependency on Public Transport
-
- Items Prescribed
= 120,000 per annum
 - % of Items Captured by Pharmacy
= 40%

Loss Maker /
Closure Candidate



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The 'Per Patient' Method of Valuation

- Used on co-located health centre pharmacies
- 'Special Value' valuation methodology
- Linking rental value to business value
- Pro's
 - Allows for basic comparison (adjusted for lease / physical variances)
 - Patient (Prescribing) List Size information is relatively easy to obtain
- Con's
 - Difficult to differentiate between pharmacies (business variances)
 - Transparency of comparables
 - Lack of knowledgeable analysis



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Valuation Development

- Variation on Notional Value
 - Used to value GP's and Health Centre's
 - Special Value?
 - Simplistic
 - Regression
- Investment / Profits Method
 - Progression
 - Similar Method for PH's / Hotels etc.
 - Information and Data difficult to obtain
 - Ethically Flawed
- Conclusion
 - Retention of the 'Per Patient' Method (for now)
 - Methodology needs refinement
 - Promote transparency



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The Challenge

- Sensible and Reasoned Conversations
 - Management of Expectations
 - Transparency of Evidence
 - Transactional Analysis Consistency
 - Hierarchy of Evidence
 - Education
-
- Progression together for a sustainable pharmacy future

QUESTIONS?