

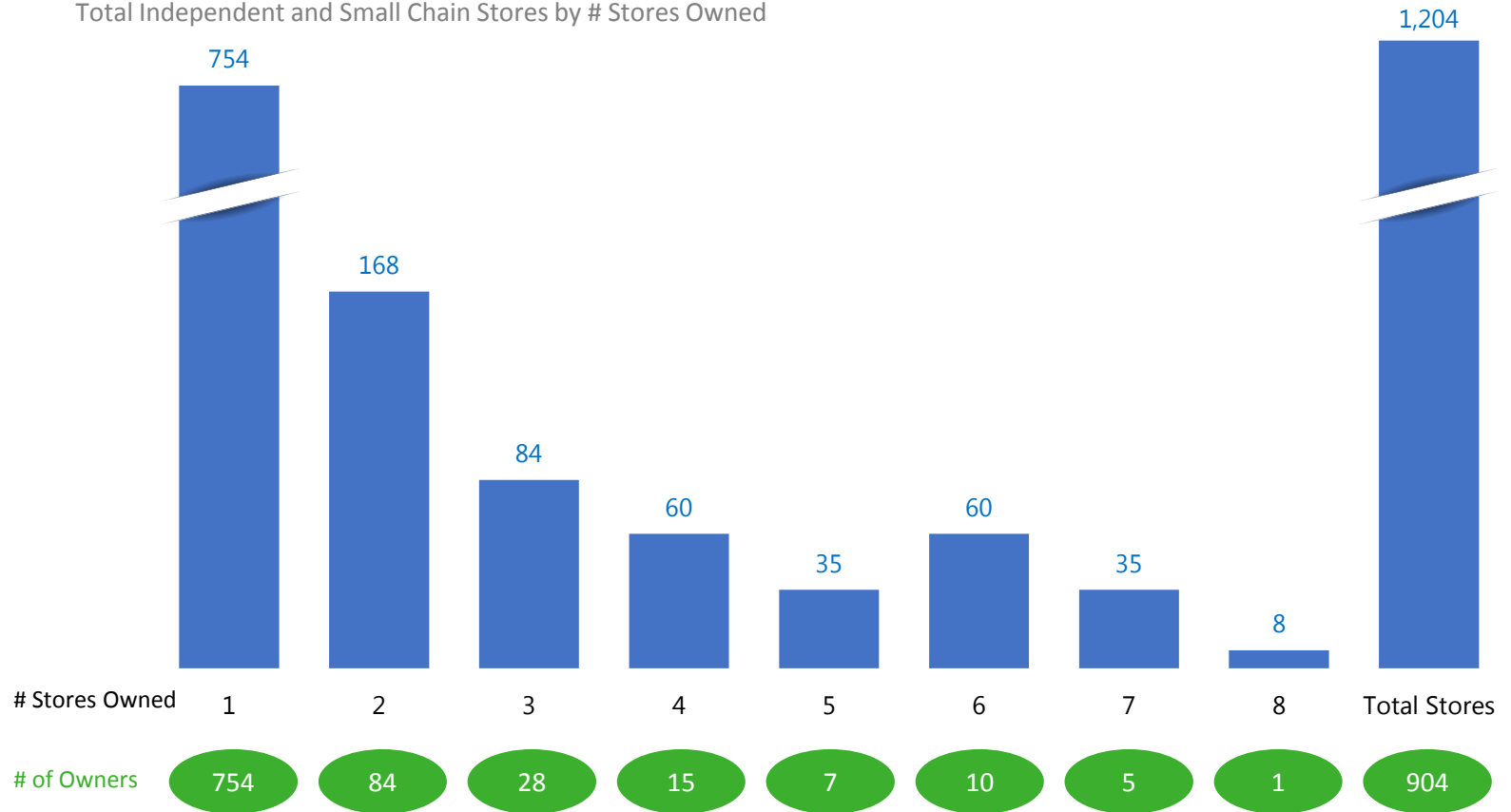
REI Pharmacy Meeting

Tuesday, 27th February 2018

The Wider Retail Pharmacy Market

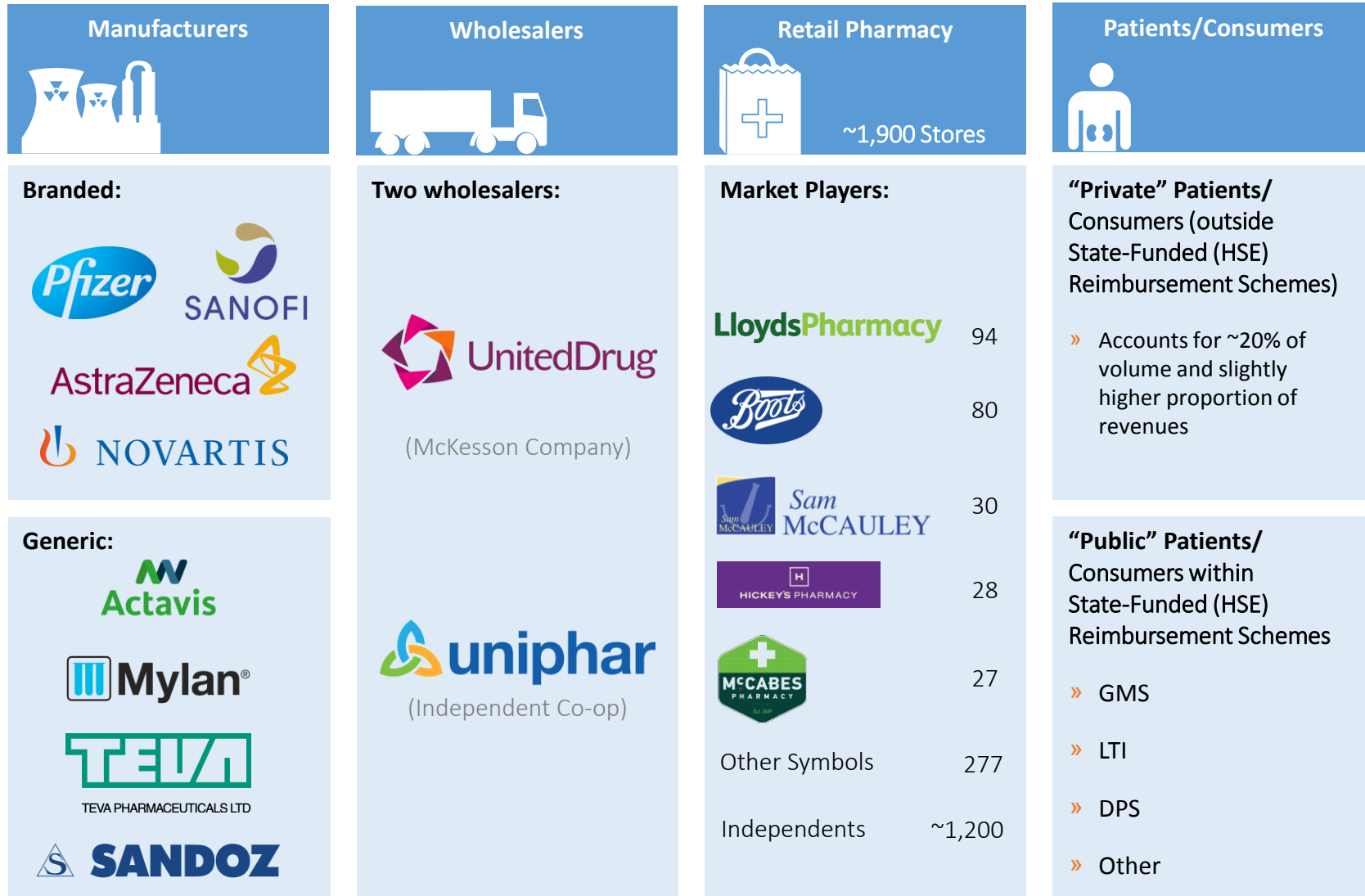
Retail Pharmacy Market is Highly Fragmented – Independents Comprise 65% of Total Market Stores

Total Independent and Small Chain Stores by # Stores Owned



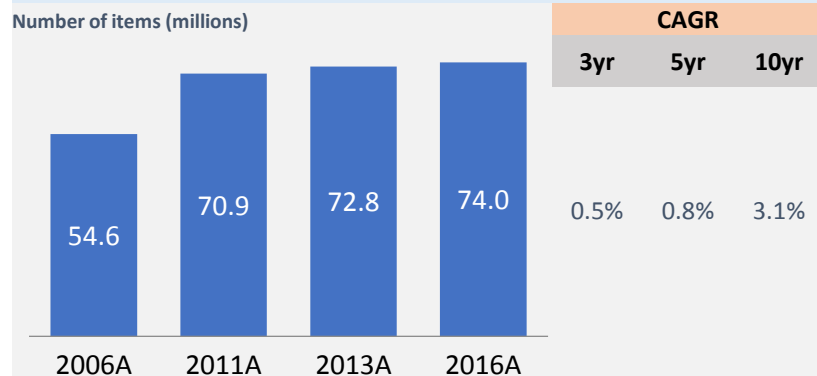
Given lack of debt financing available over the last 10 years, the vast majority of independent pharmacy owners are > 40 years old providing ongoing M&A opportunities

Irish Pharmaceutical Market Value Chain



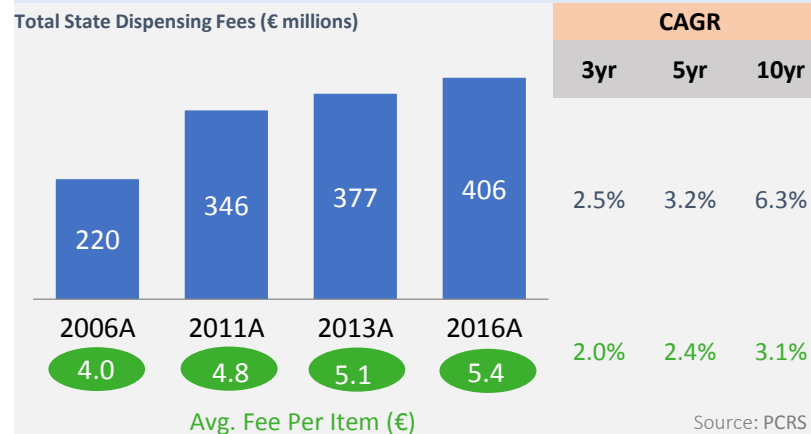
Public Market – Strong Volume/Dispensing Fee Growth Offset by Reduced Drug Product Costs

Robust Government Scheme Prescription Item Growth...

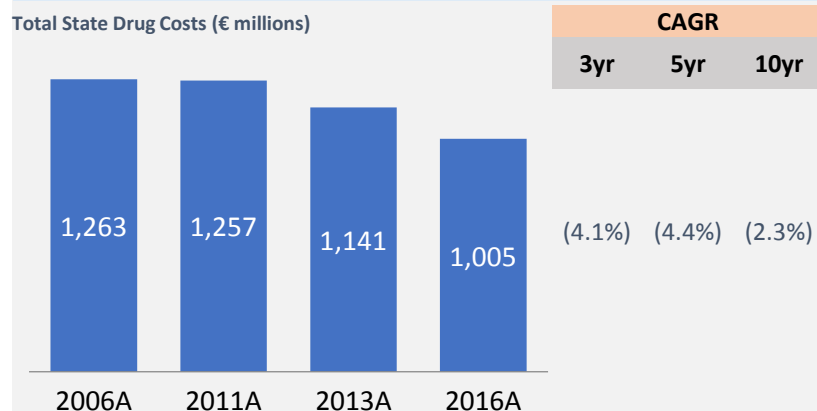


Source: Primary Care Reimbursement Service ("PCRS")
Note: Excludes private prescriptions in all years

...Translated to Strong Dispensing Fee Growth

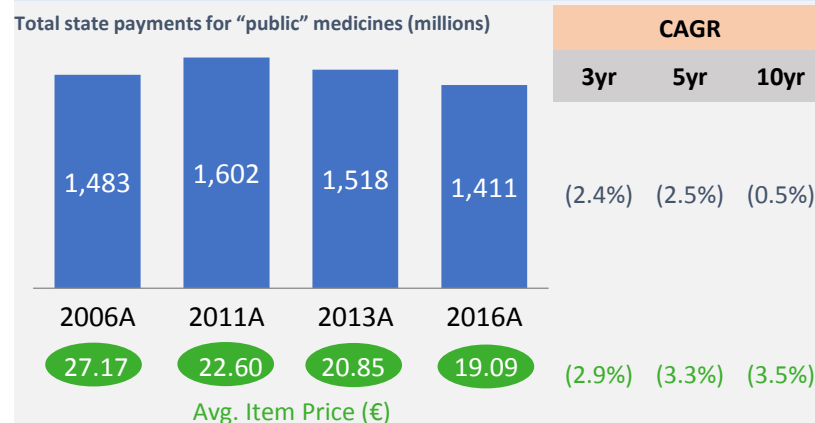


Total Drug Costs Contained via Reference Prices..



Source: PCRS

...Resulting in Flat Total Reimbursement Pool

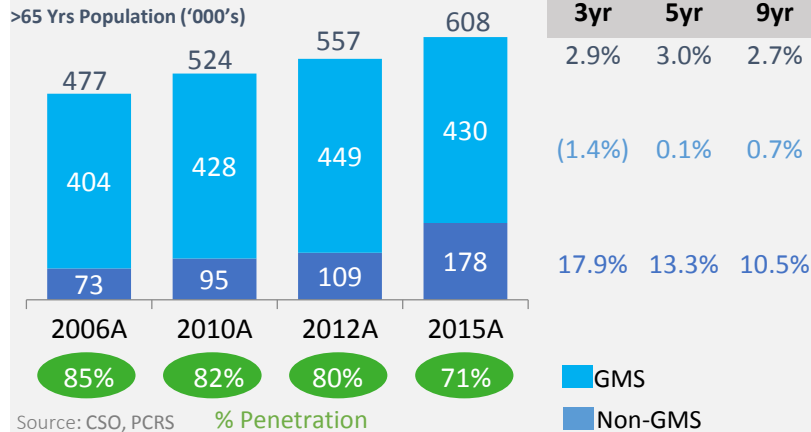


Source: CSO, PCRS

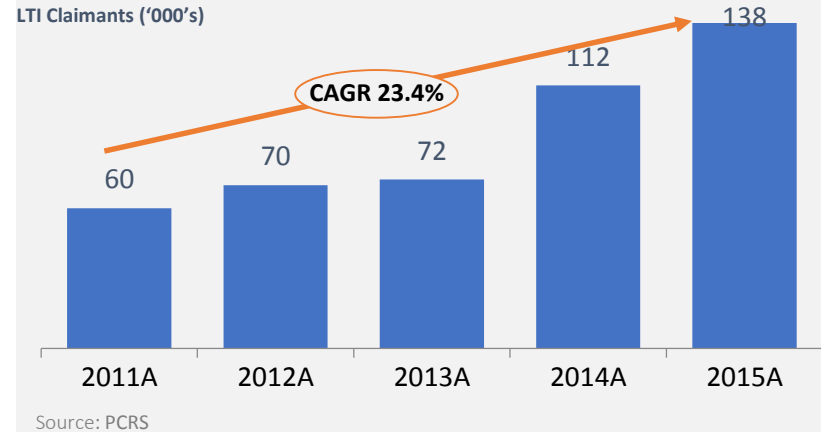
Volume Growth Underpinned by both Demographics and Long-Term Illnesses (e.g. Diabetes)



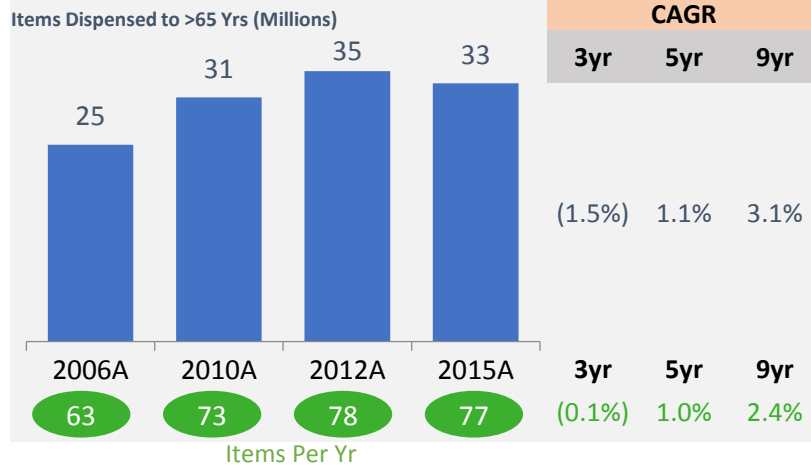
Reduced Access Decreasing >65 Yrs Medical Card Holders...



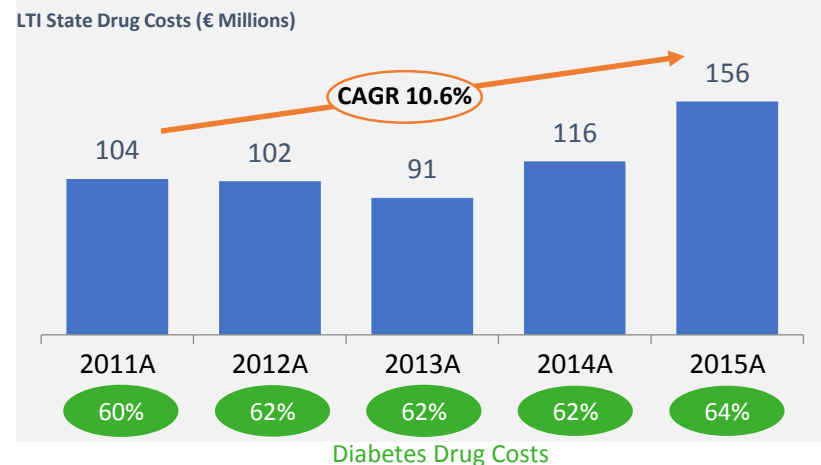
Strong Growth in LTI Claimants Driven by Diabetes....



..But >65 Yrs Contributed to 40% of Item Growth since 2006



...Translating to Increased LTI Drug Costs



Note: Diabetes drug costs based on disclosure of Top 20 LTI drug categories

Supply Side Growth in Retail Pharmacy Sector Has Been a Headwind on Store Level Growth

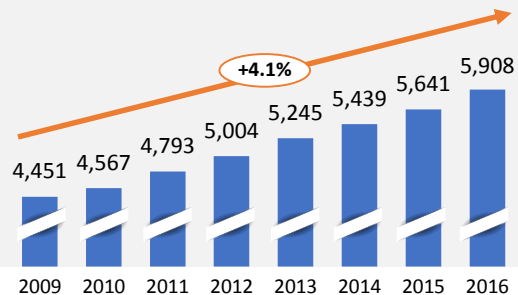


» The increased challenges in the market has not reduced the growth in the number of registered pharmacists. Furthermore, the indicative* avg salary achievable from an existing pharmacy has fallen in real terms by ~16% since 2008

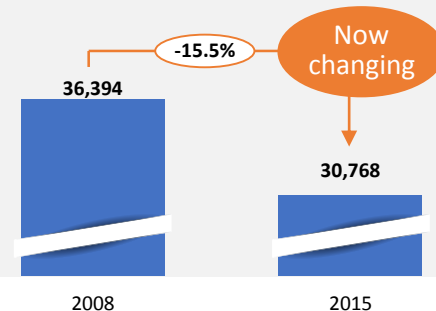
» Deregulation in 2003 created very low barriers of entry for pharmacies. This combined with the less attractive salary options available and potential defensive strategies (open a 2nd store to prevent competitor) have contributed to the increased supply of pharmacies in the market. Ireland has one of the highest penetration of pharmacies in Europe – may also be a function of dispersed population

» Nevertheless, while the overall volumes in the market have grown by 3.1% p.a. since 2006 the annual volumes an average prescription pharmacy can expect to achieve has declined by 3.5% from 42k to 40.5k as a result of increased supply

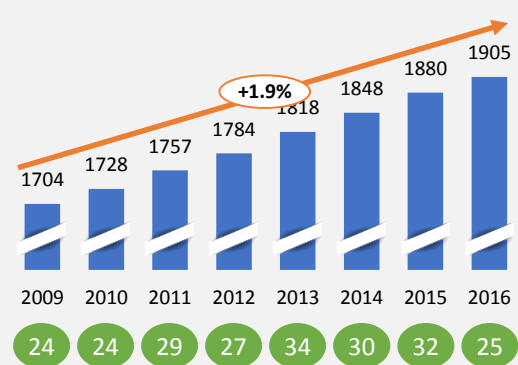
Registered Pharmacists



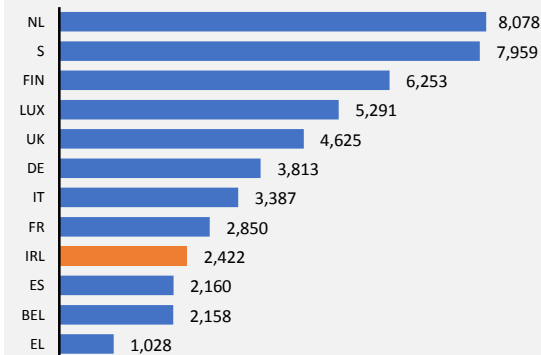
Average Salaries in Pharmacy Companies



Registered Pharmacies

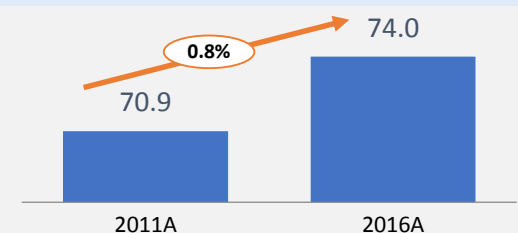


Inhabitants per Pharmacy

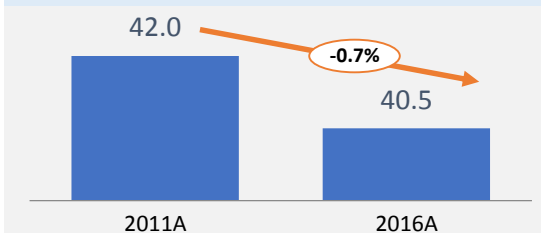


Net New openings

#Total Items Nationally-State Schemes (million)

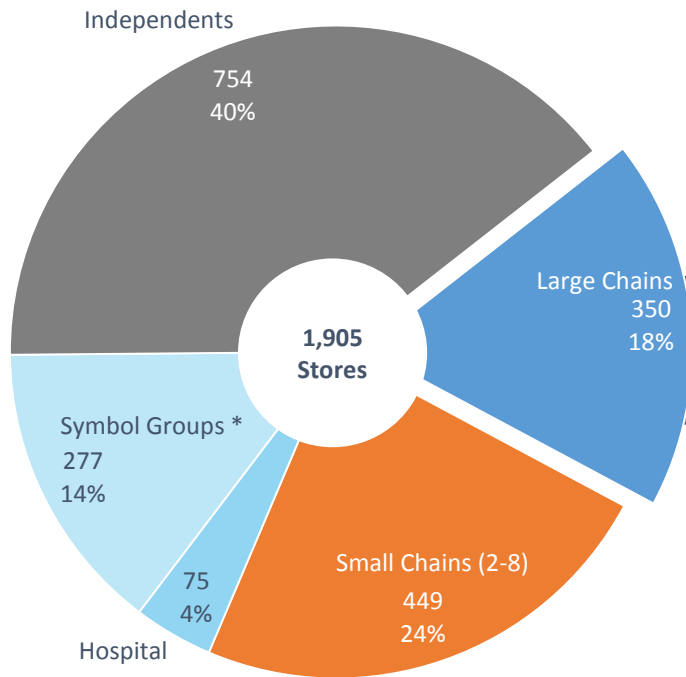


Average Items Per Store ('000s)

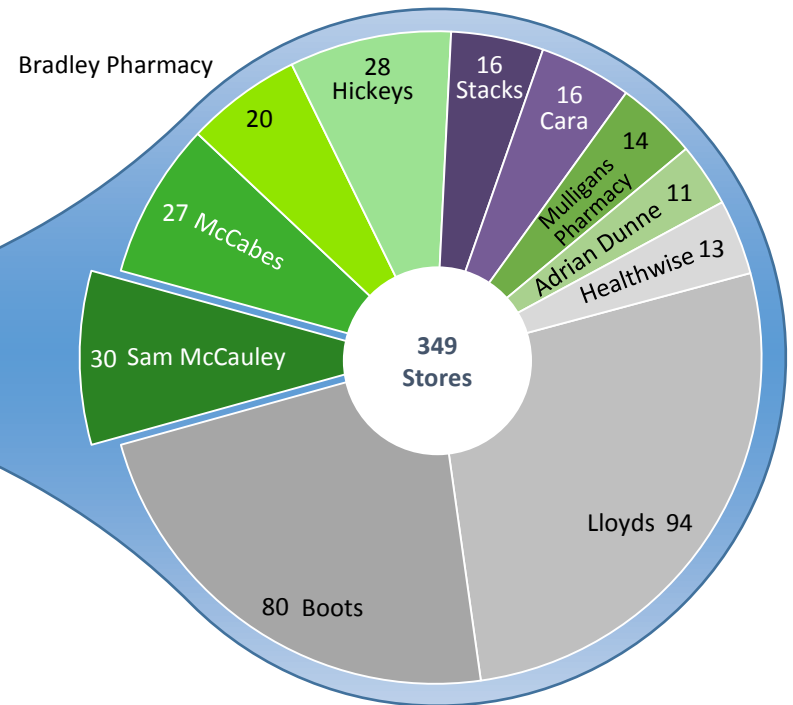


Market Structure is Highly Fragmented

Total Market Share by Stores



Large Chains by Store Numbers



- » Market is very fragmented with the large chains only accounting for 18% of total stores. Small chains make up the largest segment but over half of these have less than three stores
- » A significant number of independent stores (~15%) have joined symbol groups to achieve some purchasing power benefits

- » Some chains have been highly leveraged following expansions during boom years but have now largely resolved their issues
- » Lloyd's is the largest chain and has adopted more of a local prescription focus. Was the only chain buyer during 2010-2014 period albeit expansion has stalled following recent issues and integration into United Drug.

Online Pharmacy – Online to Home of Prescription Pharmaceutical Products

E-Pharmacy

- » Online pharmacy has been a focus of discussion between the Department of Public Expenditure & Reform (DPER) and the HSE (state payor) as a potential mechanism to gain cost efficiency in the distribution of medicine
- » Key concern is that online provision will lead to “cherry-picking” of patients with consistent predictable monthly medication requirements – this model could then create a sub-optimal distribution of bricks & mortar pharmacies which provide critical services to one-off and higher-acuity patients
- » Irish stakeholders also highlighted a concern related to a potential increase in non-adherence with regular face-to-face consultation considered a critical factor to maintain adherence – a major challenge for health services internationally
- » The lack of any system-wide implementation of online pharmacy in other jurisdictions was also highlighted as reason for the unlikely adoption of this model in Ireland
- » The Pharmaceutical Society of Ireland (PSI) indicated that there was no current work underway nor in the planning phase to examine changes to pharmacy regulation to allow for online pharmacy

Electronic Prescription Services (EPS)

- » EPS will be introduced in the medium term. – currently a patient is given a paper prescription by a GP and then has to physically take it to a pharmacist but with EPS it is sent electronically by the GP to the pharmacy of the patient’s choosing and the patient then collects the prescription from the nominated pharmacy
- » Online pharmacies have grown in the US where there is a meaningful pricing incentive (lower co-payment) whereas in Ireland, prescriptions are free to ~80% of patients
- » EPS could facilitate the growth of E-pharmacy in the long-term from a logistics perspective if patients refer new prescriptions directly to an online pharmacy and want to have their prescriptions home delivered – represents a smaller subset of the overall prescription market due to the demographic profile of the average patient
- » Patients often want treatment to start immediately meaning first prescription likely to be captured by a physical pharmacy - the growth in mail order prescriptions in the US is related to growth in repeat prescriptions
- » Local pharmacies already offer home delivery services for free and central distribution with direct to home delivery is not as cost effective as branch dispensing and delivery from branch

Immediate Commercial Challenges

Recruitment Challenges

- » Shortage of young Pharmacists wishing to work in Community Pharmacy (More pronounced in rural / provincial locations)
- » Reasons are varied
 - Increased levels of bureaucracy
 - Underutilisation of skills
 - Opportunities in industry
 - Unwinding of FEMPI in public sector
 - Working hours / responsibilities / anti-social
 - Attractiveness of other jurisdictions
 - Lifesyle
 - Professional development
- » Problems common with other healthcare professionals
 - GP's – Ultimately our order book
 - Community nurses
- » Pent up demand for pay increases after years of inertia

Immediate Commercial Challenges

Continued Outlet Growth

- » There doesn't appear to be a significant town that does not have a multiple of Medical / PCC's being developed
- » Pharmacy is seen as the golden ticket
- » Slow adoption by patients of Medical Centre locations
- » Further fragment the market

HSE Fee review as part of FEMPI review

- » Deloitte report
- » The most vulnerable (pharmacies < €600k T/O) least engaged in the necessary defence
- » FEMPI is being unwound for public servants but not for pharmacy that provides an extraordinary public service
- » Essential Public service is being subsidised by private retail activity

Immediate Commercial Challenges

HSE actions

- » Most recent actions are for cutting costs not improved patient outcome
- » Probity audits – Are approached by the HSE on the assumption of guilt and are very stressful for operators
- » Non-Reciprocation eg. Refusal to provide electronic payment rejections to allow follow-up on non-payment
- » Real target is the Pharmacists fee – (recent engagement with IPU & Prof. Michael Barry)

Opportunities

Scale

- » Larger pharmacies with offer broader range of services
- » Retail development
 - In SMcC 50% of our business is non RX / OTC

Merger

- » The merger of 2 smaller units can deliver significantly improved profitability / quality of life benefits for both
- » Not easy to decide on which premises / name to use
- » Merged entity has sufficient scale to be of interest to a consolidator

Consolidation

- » Pharmacy groups have significant central overhead that can be leveraged
- » Increased regulation / audit / process / bureaucracy requires resource to manage
- » Have resources to invest in technologically driven solutions and improved range of services to meet patient needs
- » Can provide career paths for young entrants to the profession

Thank you !

Questions ?