Economics of French Retail Pharmacies

Market Insights Series

What to know & understand
to better decide

November 2024

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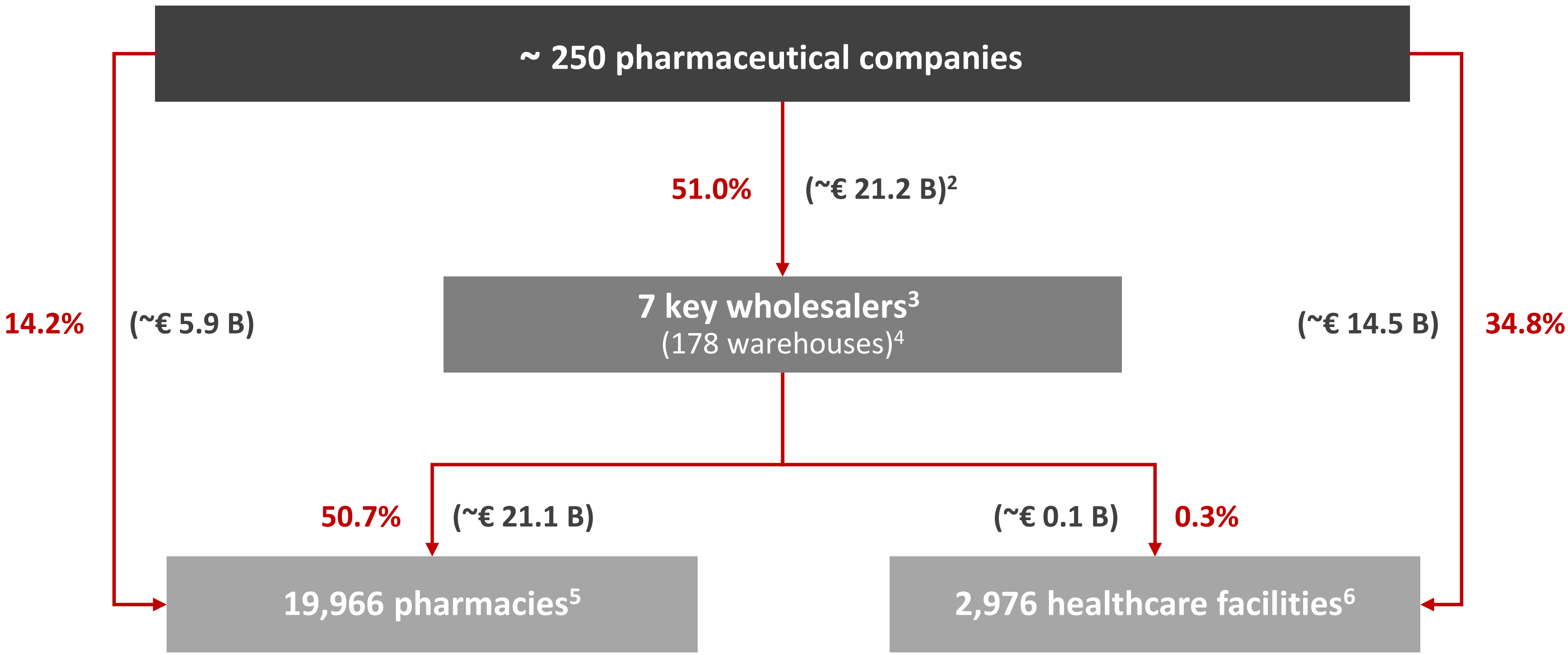
Drugs sold in retail pharmacies are mainly sourced from wholesalers, while hospital drugs are usually directly sourced from pharmaceutical companies, through pre-wholesalers[1]

Drug supply chain in France (2023)



64.9% (~€ 27.0 B)

35.1% (~€ 14.6 B)

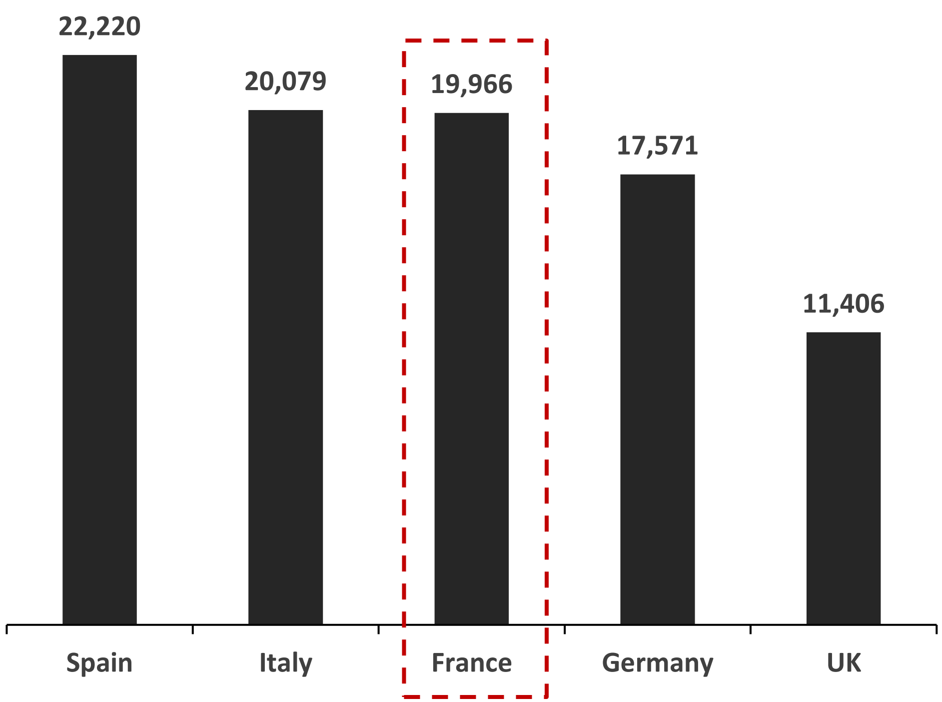
Sources: Leem ("Bilan Economique 2023") – GERS dashboard (December 2023) – SmartRx 2024 (January 2024) – Ordre National des Pharmaciens (January 2024) – DREES (December 2023) – Smart Pharma Consulting estimates

[1] Depositaries / Agents – [2] Ex factory-price, before rebates and taxes – [3] Accounting for ~97% of the distribution market – [4] In mainland France. For FOTs (French Overseas Territories) there are 12 more warehouses – [5] Of which 94% are members of VTOs (Voluntary Trade Organizations) – [6] Public and private

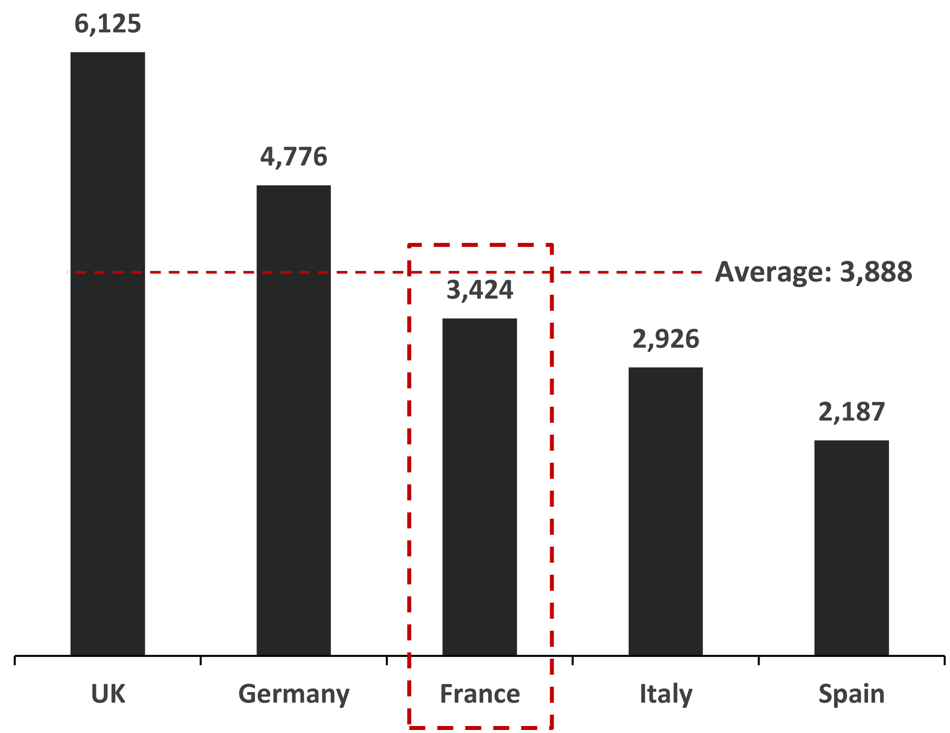
The relatively low turnover of retail pharmacies in France[1] is explained by a high density of outlets, the low prices of reimbursed drugs[2] and a narrow list[3] of items allowed to be sold

Retail pharmacies across Euro-5 countries

Number of retail pharmacies (2023)



Number of inhabitants per pharmacy (2023)



Sources: Ordre National des Pharmaciens, France (January 2024) – ABDA, Germany (January 2024) – CGCOF, Spain (July 2023) – NHS database, UK (January 2024) – Federazione nazionale unitaria titolari di farmacia, Italy (November 2024) – Smart Pharma Consulting analyses

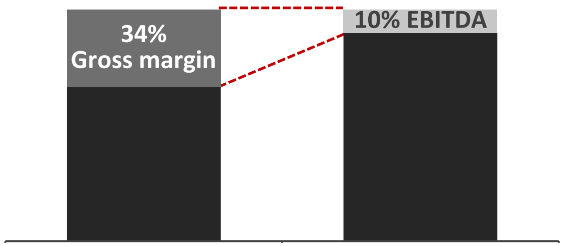
[1] € 2.4 M in 2023 – [2] The average price of reimbursed drugs, accounting for 72% of their sales, is lower than in most of the largest EU countries – [3] Unlike in the UK, for instance, the list of products that can be sold, beyond drugs, food supplements, medical devices and parapharmacy products, is very restricted and defined by law

Euro-5 retail pharmacies have an EBITDA rate ranging from 9% and to 12%, with a high difference of sales level between the highest (€ 3.9 M in the UK) and the lowest (€ 1.0 M in Spain)

Retail pharmacies performance in Euro-5 countries (2023)

UK

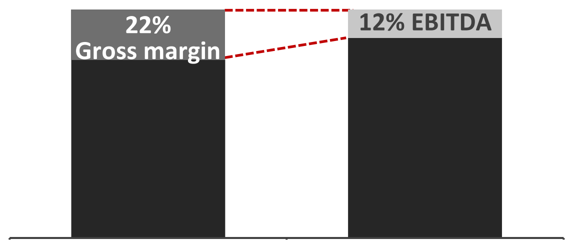
Average sales per outlet: **€ 3.9 M**



# outlets	**11,406**
# inhabitants/ outlet	**6,125**

Germany

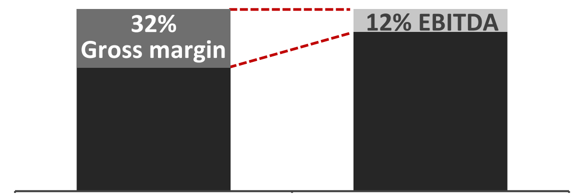
Average sales per outlet: **€ 3.2 M**



# outlets	**17,571**
# inhabitants/ outlet	**4,776**

France

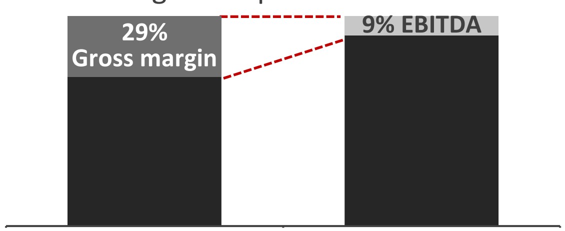
Average sales per outlet: **€ 2.4 M**



# outlets	**19,966**
# inhabitants/ outlet	**3,424**

Italy

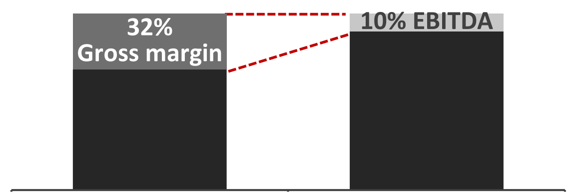
Average sales per outlet: **€ 1.2 M**



# outlets	**20,079**
# inhabitants/ outlet	**2,926**

Spain

Average sales per outlet: **€ 1.0 M**

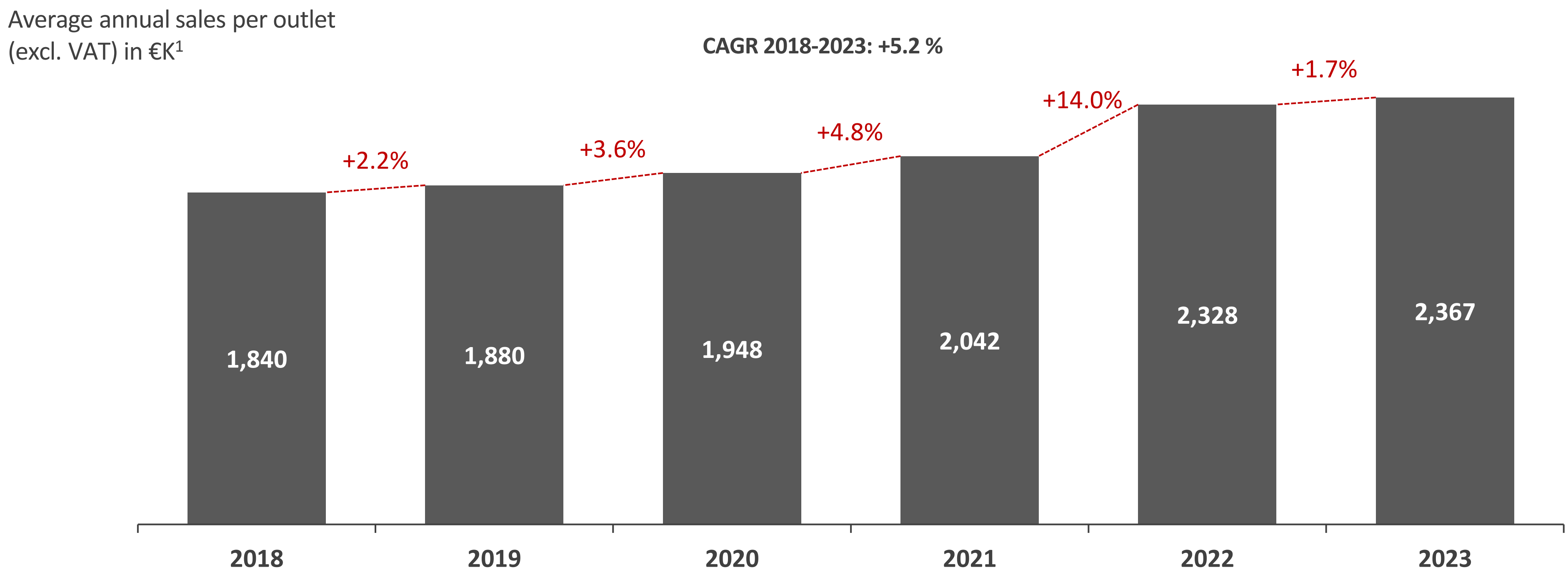


# outlets	**22,220**
# inhabitants/ outlet	**2,187**

Sources: Le Moniteur des Pharmaciens (March 2024) – Hutchings UK market report update (2024) – Informe Aspime (March 2023) – World Bank data – Smart Pharma Consulting analyses

Retail pharmacies growth has jumped in 2022 due to extra sales directly linked to the Covid-19 pandemics which generated extra activities (e.g., vaccination, antigenic testing)

Retail pharmacies sales evolution (2018 – 2023)



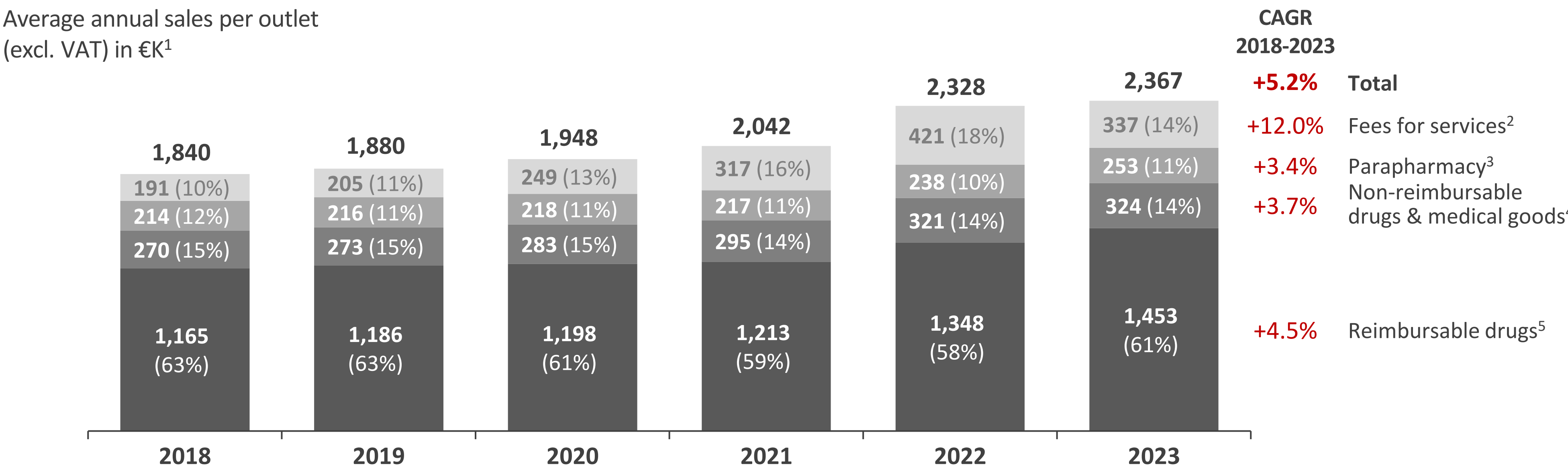
- The 2022 sales have been strongly boosted by antigenic tests and vaccines against the Covid-19 sold, along with the vaccination at outlets
- If one excludes the 2022 sales due to the Covid-19, the 2023 growth would have been of +5.9%

Sources: CGP Experts Comptables (2024) – Smart Pharma Consulting analyses

[1] Based on the 1,832 retail pharmacies analyzed in 2023 by CGP Experts Comptables. The sample of retail pharmacies analyzed in the previous years is not necessarily the same

The strong reimbursable segment growth is driven by the expensive drugs despite regular price cuts imposed by the CEPS, while fees dynamics correspond to the development of services

Structure of retail pharmacies sales (2018 – 2023)



- Fees for services include dispensing- and prescription-related fees that are associated to reimbursed drugs, vaccination for Covid-19, antigenic testing, as well as cooperation agreements signed with different suppliers[6]
- The inflation has had an impact on the evolution of the non-reimbursed segments (drugs, medical goods, and parapharmacy) since retail pharmacists have partly or totally transferred their purchasing price increase to their customers to maintain their margin level in percentage
- Reimbursable drugs have grown by +7.8% in 2023 vs. 2022, 80% of this growth being due to expensive drugs (ex-factory price > € 500 per pack)

(x): % of the total sales of the year (excl. VAT)

Sources: CGP Experts Comptables (2024) – Smart Pharma Consulting analyses

[1] Based on the 1,832 retail pharmacies analyzed in 2023 by CGP Experts Comptables. The sample of retail pharmacies analyzed in the previous years is not necessary the same – [2] Including dispensing fee – [3] Including para-pharmacy products, animal health, etc.– [4] Including OTC drugs and "lifestyle" Rx-bound drugs, baby milk, medical material for disabled people, masks and disinfectant gel, etc – [5] Either prescribed or not – [6] Such as generics and biosimilars companies, OTC, food supplements and parapharmacy companies

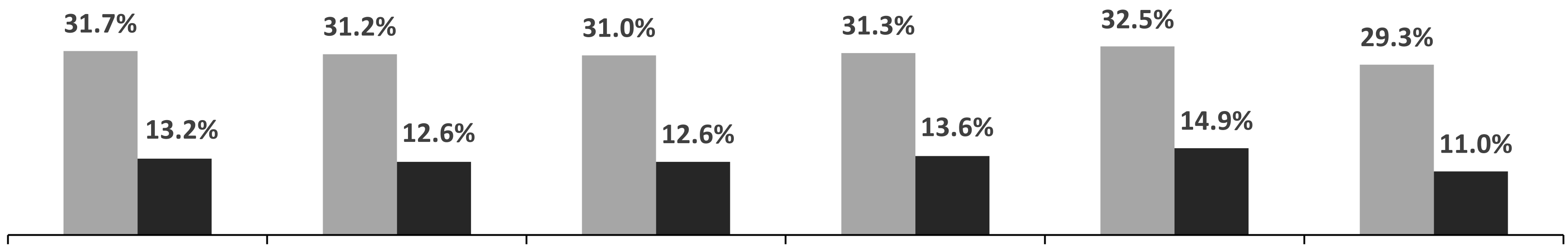
If one observes a slight deterioration of retail pharmacies profitability over the period as a percentage of their sales, their gross margin and EBITDA have been maintained in absolute terms

Retail pharmacies margins evolution (2018 – 2023)

Average margins
as a % of sales (excl. VAT)[1]

2018 vs. 2023 gross margin evolution: -2.4 pp but + € 111 K per outlet
2018 vs. 2023 EBITDA evolution: -2.2 pp but + € 17 K per outlet

Gross margin | EBITDA



	2018	2019	2020	2021	2022	2023
Gross margin (€K)[2]	**583**	**587**	**604**	**639**	**757**	**694**
EBITDA (€K)[2]	**243**	**237**	**245**	**278**	**347**	**260**
Annual sales, excl. VAT (€K)[2]	**1,840**	**1,880**	**1,948**	**2,042**	**2,328**	**2,367**

- **Gross margin:** the 2023 decrease is due to the drop of products associated to the Covid-19, such as masks and antiseptic gels with margins of 80%, the strong growth of high-priced reimbursed drugs with margins capped by the CEPS, the shortage of generics obliging pharmacists to buy from multiple suppliers, reducing their level of rebates
- **EBITDA:** the year 2023 has been mainly impacted by the staff costs due to inflation and continuous manpower shortage

Sources: CGP Experts Comptables (2024) – Smart Pharma Consulting analyses

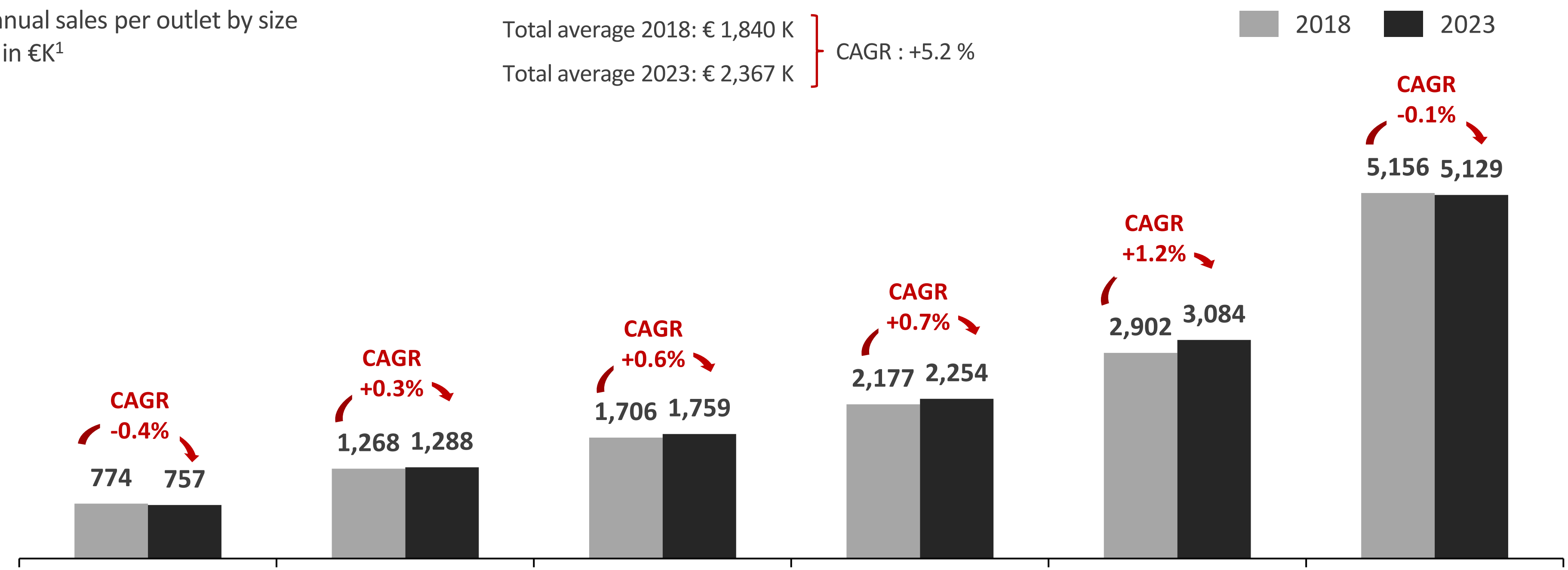
[1] Based on the 1,832 retail pharmacies analyzed in 2023 by CGP Experts Comptables. The sample of retail pharmacies analyzed in 2018 is not necessarily the same – [2] Average per outlet

Smaller outlets poor performance is due to their lower attractiveness compared to larger ones, while the biggest outlets have been more impacted by inflation on their free-priced products

Retail pharmacies sales by size (2018 – 2023)

Average annual sales per outlet by size (excl. VAT) in €K[1]

Total average 2018: € 1,840 K
Total average 2023: € 2,367 K
CAGR : +5.2 %



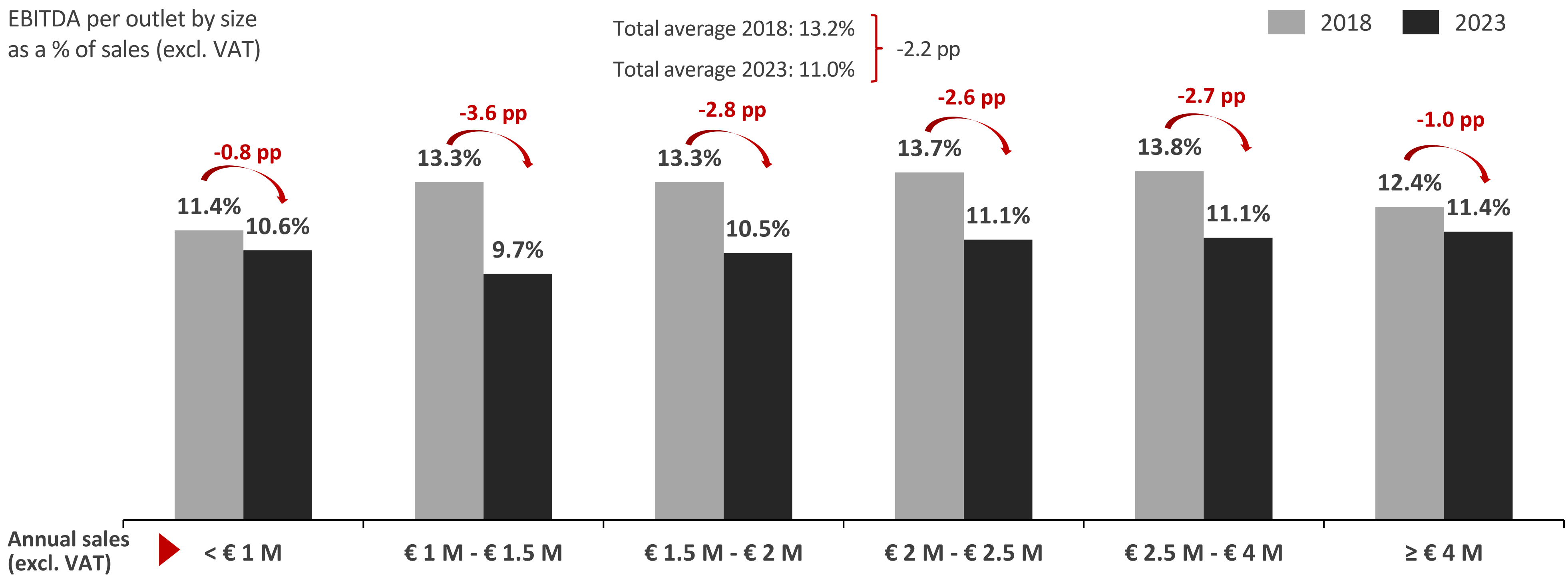
Annual sales (excl. VAT)	< € 1 M	€ 1 M - € 1.5 M	€ 1.5 M - € 2 M	€ 2 M - € 2.5 M	€ 2.5 M - € 4 M	≥ € 4 M
Extrapolated[1] number of pharmacies	1,694	3,079	4,234	3,644	5,410	1,905

Sources: CGP Experts Comptables (2024) – Smart Pharma Consulting analyses

[1] Extrapolation to 19,966 based on the 1,832 retail pharmacies analyzed in 2023 by CGP Experts Comptables. The sample of retail pharmacies analyzed in 2018 is not necessarily the same

The EBITDA of retail pharmacies has decreased over the 2018-2023 period, especially for the small to medium ones having a turnover ranging from € 1 M to € 4 M

Retail pharmacies EBITDA by size (2018 – 2023)



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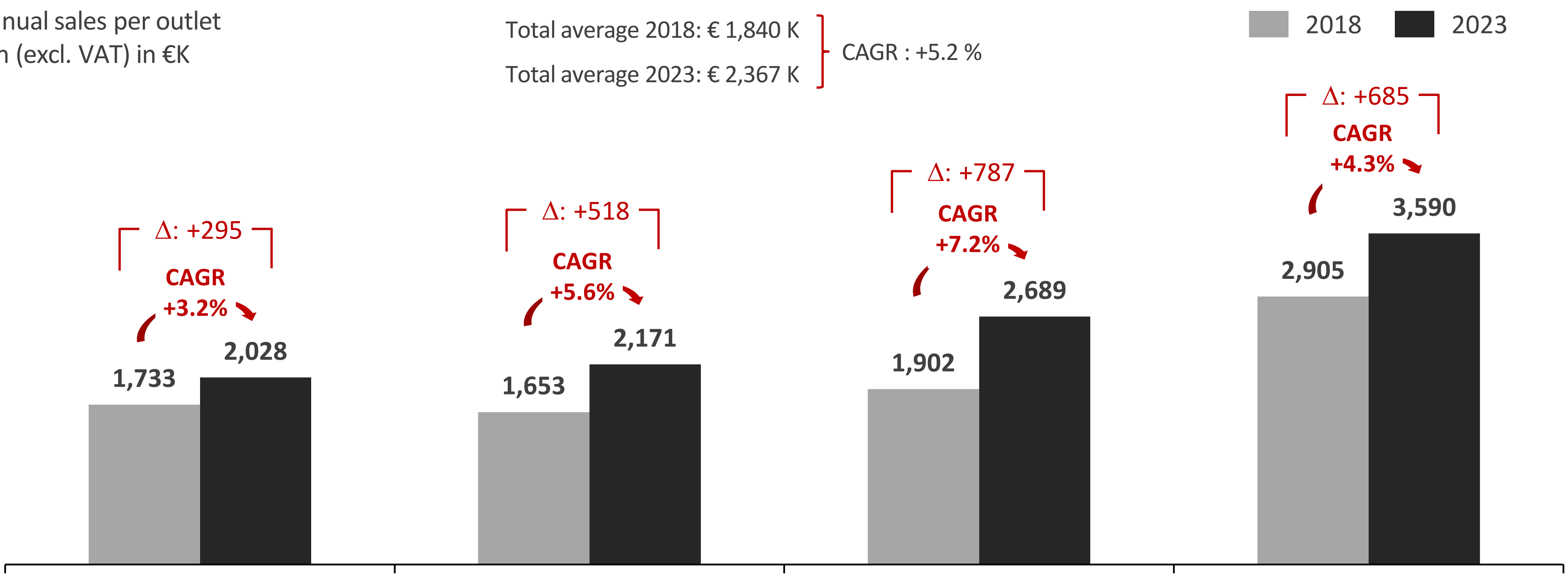
[1] Extrapolation to 19,966 based on the 1,832 retail pharmacies analyzed in 2023 by CGP Experts Comptables. The sample of retail pharmacies analyzed in 2018 is not necessarily the same

Sales of retail pharmacies located in commercial centers were 77% higher than those in urban areas in 2023 (vs. 68% in 2028), and their growth in euros has been 2.3 times higher

Retail pharmacies sales by location (2018 – 2023)

Average annual sales per outlet per location (excl. VAT) in €K

Total average 2018: € 1,840 K
Total average 2023: € 2,367 K
CAGR : +5.2 %



Location	Urban area	Rural area	Large rural town	Commercial center
Extrapolated[1] number of pharmacies	6,569	6,495	5,318	1,584

Sources: CGP Experts Comptables (2024) – Smart Pharma Consulting analyses

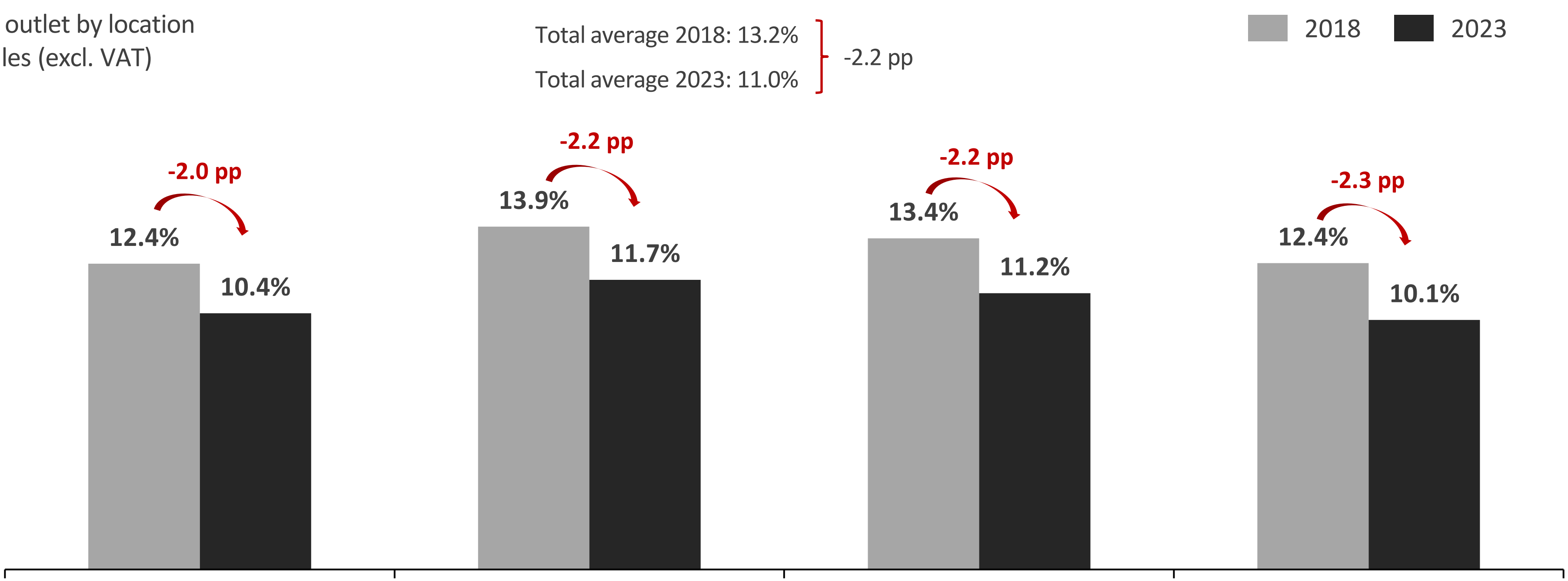
[1] Extrapolation to 19,966 based on the 1,832 retail pharmacies analyzed in 2023 by CGP Experts Comptables. The sample of retail pharmacies analyzed in 2018 is not necessarily the same

Between 2018 and 2023, the retail pharmacies EBITDA decreased moderately, with little differences across locations, in terms of level and evolution

Retail pharmacies EBITDA by location (2018 – 2023)

EBITDA per outlet by location
as a % of sales (excl. VAT)

Total average 2018: 13.2%
Total average 2023: 11.0%
-2.2 pp



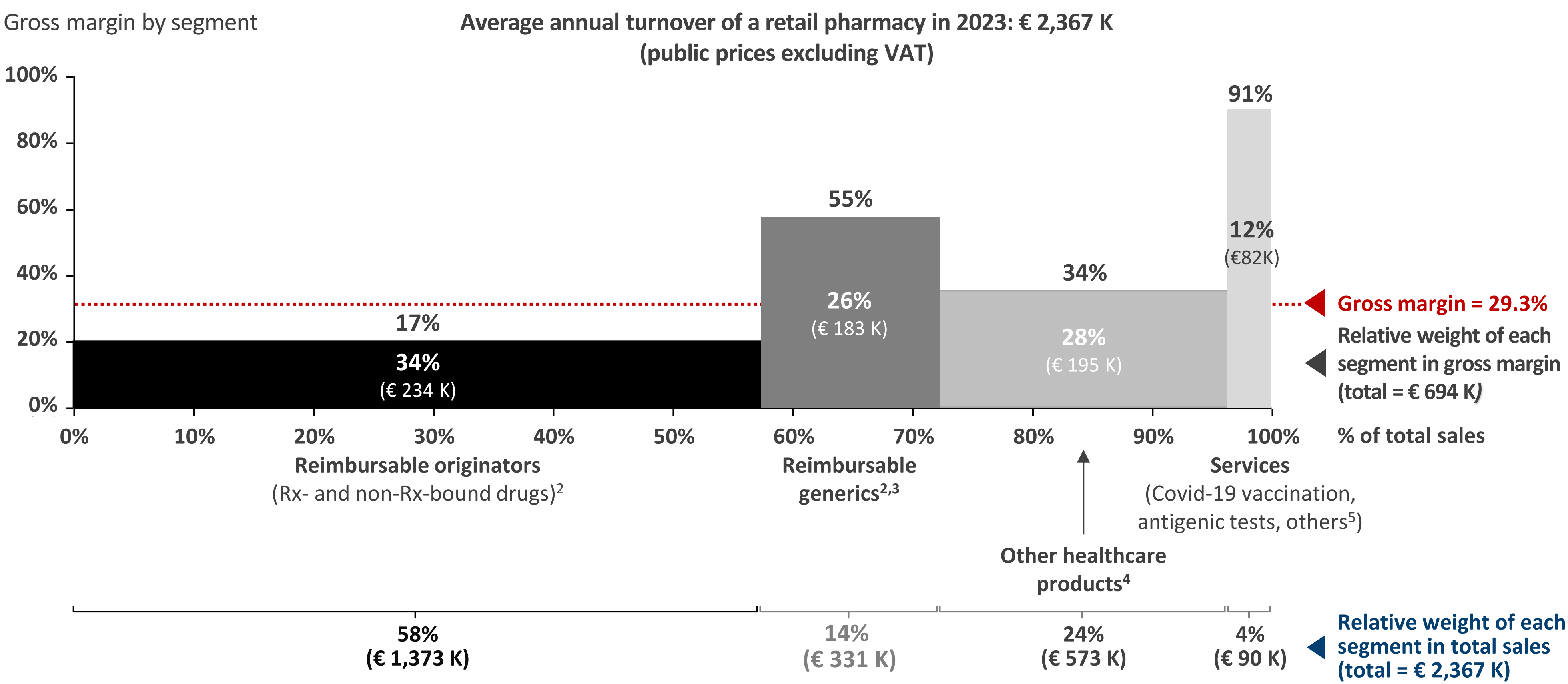
	Urban area	Rural area	Large rural town	Commercial center
Location	**Urban area**	**Rural area**	**Large rural town**	**Commercial center**
Extrapolated[1] number of pharmacies	**6,569**	**6,495**	**5,318**	**1,584**

Sources: CGP Experts Comptables (2024) – Smart Pharma Consulting analyses

[1] Extrapolation to 19,966 based on the 1,832 retail pharmacies analyzed in 2023 by CGP Experts Comptables. The sample of retail pharmacies analyzed in 2018 is not necessarily the same

The preferred generics supplier, contributing to ~23%[1] of retail pharmacies gross margin, is well positioned to develop cross-selling with substitutable biosimilars and/or non-Rx-bound products

Structure of retail pharmacies economics (2023)*



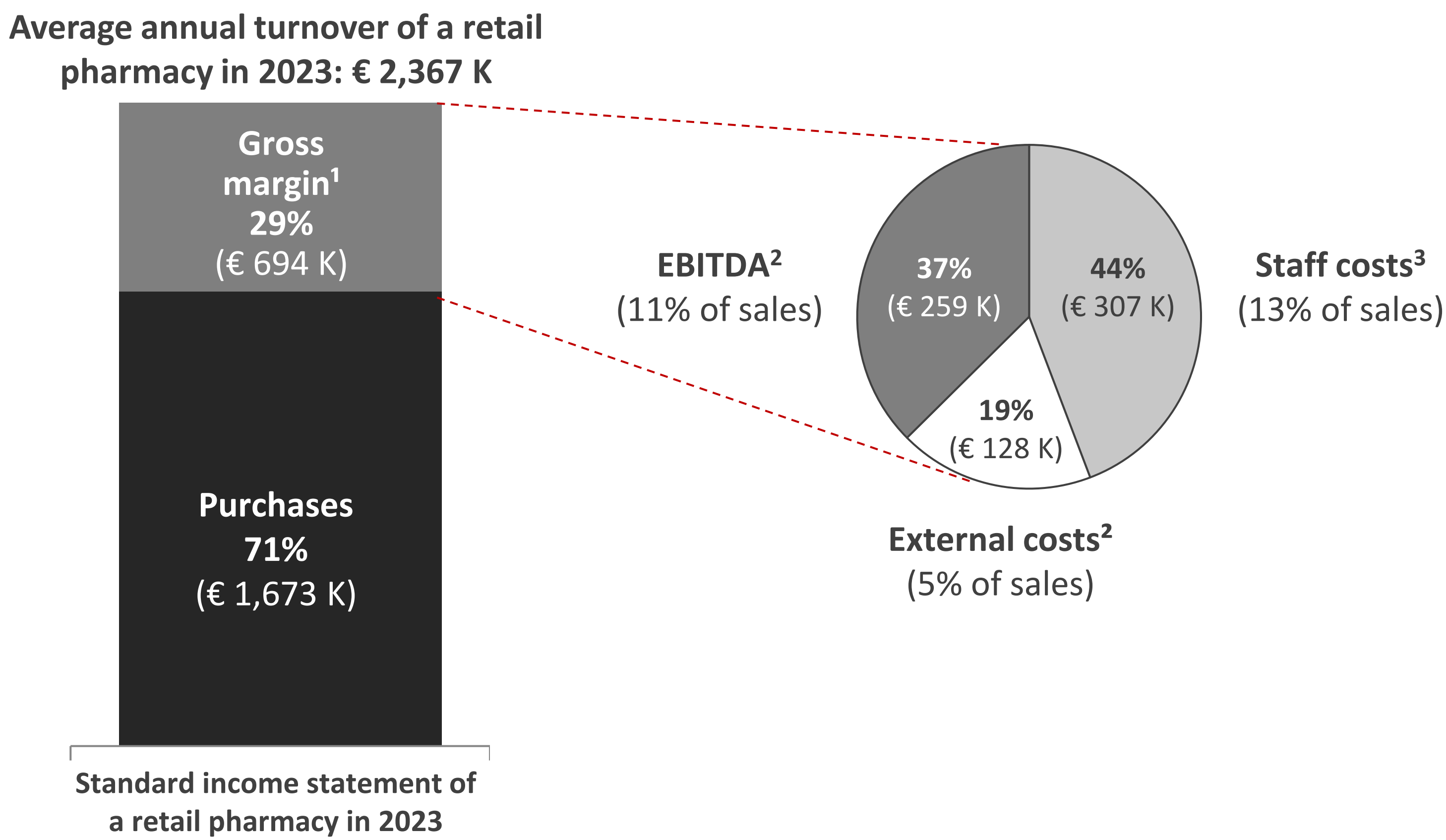
** Data estimated based on a sample of 1,832 retail pharmacies*

Sources : CGP Experts Comptables (2024) – Interviews with accounting experts (July 2023) – Smart Pharma Consulting estimates

[1] Estimating that it accounts for ~90% of the 26% of the generics' contribution to gross margin – [2] Including dispensing fee – [3] Including commercial cooperation with generic companies. The preferred generics supplier ensures ~90% of total segment, making him the 1st contributor to the retail pharmacies' profits – [4] Including OTC and "lifestyle" Rx products, medical devices, food supplements, para-pharmacy products, etc. – [5] Remuneration for services corresponding to public health objectives (ROSP), new missions, etc.

The revitalization of sales (through the expansion of products and services offer) as well as the optimization of purchasing cost are the key levers to protect / increase retail pharmacies' profits

Standard income statement of retail pharmacies (2023)*



** Data estimated based on a sample of 1,832 retail pharmacies*

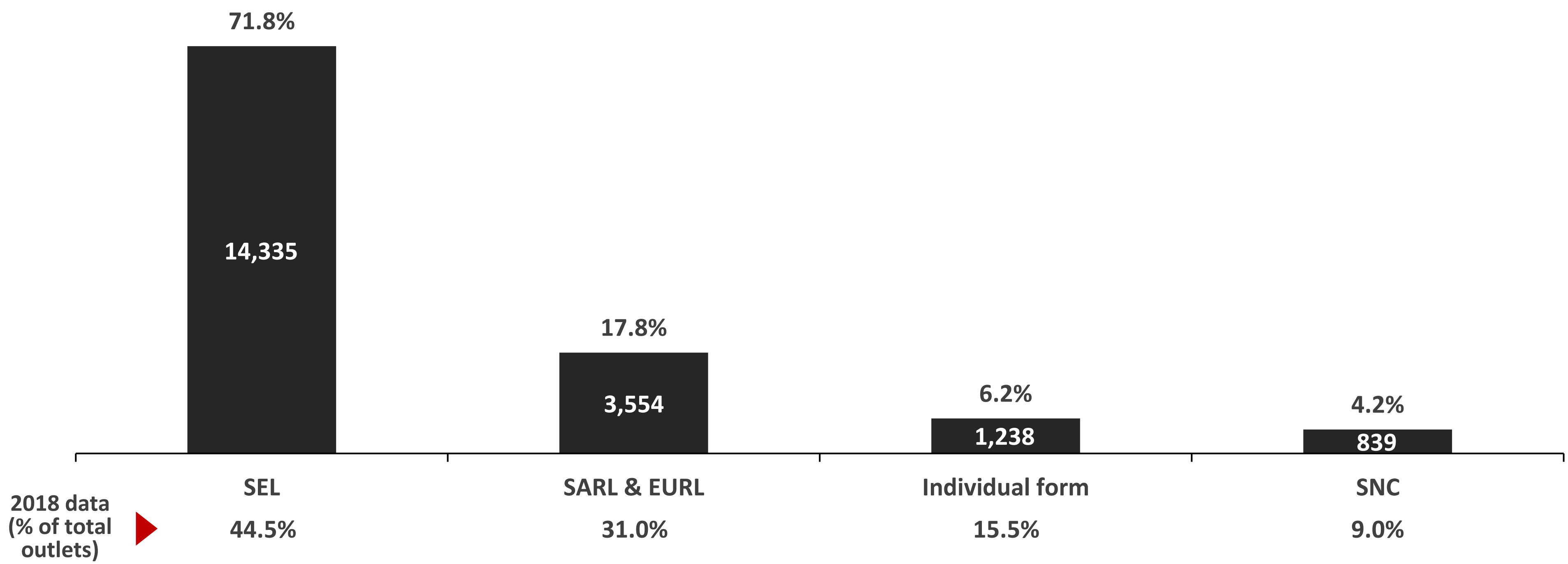
Sources : CGP Experts Comptables (2024) – Interviews with accounting experts (July 2023) – Smart Pharma Consulting estimates

[1] Including rebates and commercial offers – [2] Before amortization, financial expenses and dues paid by the pharmacist owner – [3] Including social charges

In France, retail pharmacies are mostly organized as private companies (i.e., "SEL") or companies with limited legal liability (i.e., "SARL" or "EURL")

Breakdown of retail pharmacies by legal form (2018 – 2023)

As a % and extrapolated[1] number of retail pharmacies (2023)



SEL: "Société d'Exercice Libéral" (private practice company) – SARL: "Société A Responsabilité Limitée" (private company with limited liability) – EURL: "Entreprise Unipersonnelle à Responsabilité Limitée" (individual company with limited liability) – SNC: "Société en Nom Collectif" (collective partnership)

Sources: CGP Experts Comptables (2024) – Smart Pharma Consulting analyses

[1] Extrapolation to 19,966 based on the 1,832 retail pharmacies analyzed in 2023 by CGP Experts Comptables.

The room for improvement of retail pharmacies performance is important, but requires to rethink and reshape the role and the organization of pharmacies

Levers and solutions to improve pharmacies profits

Retail pharmacy	Lever 1 Increase sales	1 **Increase of the product sales**	Increase of sales
		2 **Expand the services offering**	Increase of sales
	Lever 2: Decrease purchasing expenses	3 **Decrease of the purchasing expenses**	Improvement of margin
	Lever 3: Optimize the management	4 **Optimization of the management**	Improvement of margin
Retail pharmacies network	**Reconfigure the retail pharmacies network**	5 **Reduce of the number of retail pharmacies**	Increase of sales per outlet Improvement of margin per outlet Decrease of competition

Sources: Smart Pharma Consulting analysis

Retail pharmacies sales by product segment can be boosted by rigorously and systematically activating a certain number of levers

Levers and solutions to improve pharmacies profits

1 Increase of the product sales

Exemples of levers

Reimbursable drugs

- **Partnership with EHPADs** (Medico-social facilities housing the elderly dependent patients for whom care at home is no longer possible)

Non-reimbursable drugs

- **Self-medication:**
  - **Free access**
  - **Pharmaceutical advice**

Other healthcare products (non-drugs)

- Orthopedics
- Compression stockings
- Pregnancy tests
- Baby products
- Self-tests
- First aid
- Veterinary products
- Food supplements
- Hygiene and dermo-cosmetics
- Pain patches and compresses
- Urinary incontinence
- Medical devices (e.g., insulin pumps)
- Connected objects (e.g., electronic pillbox)
- Acoustics and Optics
- Home support (MAD)

Non-prescription-bounds (i.e. OTX and OTC)

- **Online sales**

Sources: Interviews with retail pharmacists and representatives from VTOs and professional unions – Smart Pharma Consulting analyses

In addition to their core business which is focused on drugs dispensation, pharmacists should carry out new missions, notably for patients suffering from chronic diseases

Levers and solutions to improve pharmacies profits

2 Expansion of the services offering

Extension of services

- **Regulatory framework:**
  - HPST law (2009)
  - National Pharmaceutical Agreement (2012)
  - National agreement on inter-professionality (2018)
  - "My Health 2022": Territorial reorganization of care (2019)

- **Supports** (tools – means – structures)**:**
  - Shared patient file (DP[1])
  - Connected health / Telemedicine / Telecare
  - Multidisciplinary Health Centers (MSP)
  - Healthcare networks

Prevention – Screening – Vaccination – Therapeutic education – Follow-up

- **For patients suffering from chronic diseases** (e.g., patients receiving anti-vitamin K treatments (AVK) or direct-acting oral anticoagulants (AOD), long-term illness (ALD), diabetes, asthma, high blood pressure, COPD, overweight, etc.)
- **Services paid by various stakeholders:**
  - National Health Insurance Fund / Private health insurers / Mutual health organizations
  - Regional health agencies (ARS)
  - Regional unions of HCPs (URPS)
  - Pharma companies

Sources: Interviews with retail pharmacists and representatives from VTOs and professional unions – Smart Pharma Consulting analyses

[1] Dossier Patient

With SRAs and CAPs, the lawmaker proposed a solution to regularize retrocession practices between retail pharmacies

Levers and solutions to improve pharmacies profits

3 Decrease of the purchasing expenses

	SRA[1]	CAP[2]	SRA + CAP
	Grouped procurement structure	**Buying group**	**SRA supported by a CAP**
Principle	▪ The SRA has no delivery points	▪ The CAP has delivery and storage points	▪ The SRA negotiates and invoices ▪ The CAP stores and delivers
Negotiation	▪ The agent negotiates maximum purchasing conditions	▪ The CAP sales manager negotiates purchasing conditions	▪ The commissioner / agent negotiates maximum purchasing conditions
Procurement	▪ The agent purchases on behalf of its pharmacy members	▪ The CAP purchases on its own behalf	▪ The commissioner / agent purchases on behalf of its pharmacy members
Delivery	▪ The pharma company delivers each retail pharmacy	▪ The pharma company delivers the CAP	▪ The pharma company delivers the CAP
Billing	▪ The pharma company invoices the SRA	▪ The pharma company invoices the CAP	▪ The pharma company invoices the SRA
Relationship with members	▪ The SRA invoices each pharmacy member	▪ The CAP delivers and invoices each pharmacy member	▪ The SRA relies on the CAP to store, delivers and invoices each pharmacy member

Note: The current regulations do not allow a retail pharmacist to buy large quantities of drugs to resell to colleagues

Sources: Interviews with retail pharmacists and representatives from VTOs and professional unions – Smart Pharma Consulting analyses

[1] Structure de Regroupement à l'Achat – [2] Centrale d'Achat Pharmaceutique

Retail pharmacists can improve the operating result of their pharmacy by professionalizing their management methods

Levers and solutions to improve pharmacies profits

4 Optimization of the management

1. Margin and price strategy

- Do not limit it to a linear multiplying coefficient policy by product class and apply:
  - A **lower coefficient** on **"sensitive" products** whose price is well known by customers, particularly those in free access
  - A **higher coefficient** on **prestige** products or on products requiring pharmaceutical **advice**
- The selling price must include a **profitability objective** and consider the **competition** on the **catchment area**

2. Rationalization of the activity and organization according to the catchment area

- **Adapt** the **offer** of products and services
- Adapt **opening hours** to customer expectations and competition
- **Optimize** the **layout** of the retail pharmacy to boost sales and improve circulation of customers in the selling point, based on supermarkets and hypermarkets model
- **Streamline staffing**, organization and staff time
- Assess the opportunity of **automating inventory management** (i.e., robots)

3. Professionalization of pharmacy management

- **Monitor the performance** of retail pharmacies thanks to few relevant KPIs[1]
- Follow, if needed, a postgraduate **training** of **retail pharmacy management** (e.g., MBA, master, university diploma, certificate)

4. Financial, accounting and tax optimization

- Improve **control** over **operating costs** and **stock rotation**
- Reduce **borrowing costs** (individual contribution, short-term loan, renegotiation of the loan, if needed)
- Evaluate **tax optimization** opportunities

5. Cost sharing

- **Mutualize the cost** of **support functions** (e.g., procurement, IT, quality management, management control, treasury) with other retail pharmacies thanks to:
  - The membership in VTOs
  - The creation of holdings of SELs[2] (e.g., SPFPL[3])

Sources: Interviews with retail pharmacists and representatives from VTOs and professional unions – Smart Pharma Consulting analyses

[1] Key Performance Indicators – [2] Société d'Exercice Libéral" (private practice company) – [3] Société de Participations Financières de Professions Libérales (holding for liberal professions)

French retail pharmacists are currently experiencing a transformation which is turning them from drugs dispensers to providers of high-quality health and wellness services

Strategic priorities for retail pharmacists (1/2)

Trends		Implications for retail pharmacists
1 **Government pressure** on **prices** and **volumes** of **reimbursable drugs**		
2 Progressive **transfer** of the **pharmacist regulated margin** on the **price of drugs** to **fees for service**	1	▪ Shift from "**neighborhood pharmacists**" focused on **drug delivery**… ▪ … to "**health center pharmacists**" delivering **high quality services**: – **Prevention** / **screening** (e.g., colorectal cancer) – **Education** and **monitoring** of **patients** (e.g., interviews on compliance, safety, etc.) – **Vaccination** (e.g., influenza) ▪ …offering **attractive prices** for non reimbursed products (e.g., OTC, hygiene and cosmetic products) ▪ … and developing **customer loyalty programs** (for non-reimbursed products purchase) to retain their customers
3 **Younger generations** of **physicians** seeking to **limit** the **number** of **drugs prescribed**		

Sources: Interviews with retail pharmacists and representatives from VTOs and professional unions – Smart Pharma Consulting analyses

Pharmacists will be more and more at the cornerstone of a coordinated management of patients, notably in rural areas deserted by physicians

Strategic priorities for retail pharmacists (2/2)

Trends

4 **Shift** from **hospital** to **ambulatory** care

5 **Aging** of the population / Increase of **chronic diseases**

6 **Medical desertification** in some **rural** areas

7 **IT developments** (e.g., shared patient file, telemedicine, telecare)

Implications for retail pharmacists

2

- Need for an **efficient coordination** of pharmacists with **all key stakeholders** involved in the management of patients at **local** level, notably:
  - Physicians (GPs and specialists)
  - Nurses
  - Physiotherapists
  - Occupational therapists
  - Medical devices providers
- **Business extension** on dynamic segments, such as:
  - Home care
  - Home delivery
  - Insulin pumps
  - Treatments for sleep apnea
- Partnership with **EHPADs**[1]

Sources: Interviews with retail pharmacists and representatives from VTOs and professional unions – Smart Pharma Consulting analyses

[1] *Etablissements d'Hébergement pour Personnes Agées Dépendantes (residential care homes for the elderly)*

To reinforce their economic performance, pharmacies should boost the sales of their free-pricing products, along with selected paying services, such as vaccination, if they have available staff

Key Takeaways

1. Relatively low turnover of retail pharmacies in France due to a high density of outlets, low prices of reimbursed drugs and a narrow list of items allowed to be sold

2. Strong reimbursable segment growth driven by expensive drugs despite CEPS[1] price cuts, and fees dynamics corresponding to the development of services

3. Although retail pharmacies' profitability slightly decreased as a percentage of their sales over the 2018-2023 period, their profits were maintained in absolute terms

4. If larger retail pharmacies exhibit higher EBITDAs, the latter decreased from 12.4% to 11.4% between 2018 and 2023

5. Retail pharmacists are experiencing a transformation which is turning them from drugs dispensers to providers of high-quality health and wellness services

6. Pharmacists will be more and more at the cornerstone of a coordinated management of patients, notably in rural areas deserted by physicians

Sources: Smart Pharma Consulting

[1] French drug pricing committee

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CONSULTING

Consulting firm dedicated to the pharmaceutical sector operating
in the complementary domains of strategy, management and organization

Market Insights Series

- The Market Insights Series has in common to:
  - Be well-documented with recent facts and figures
  - Highlight key points to better understand the situations
  - Determine implications for key stakeholders
- Each issue is designed to be read in 15 to 20 minutes and not to exceed 24 pages

Economics of French Retail Pharmacies

What to know & understand to better decide

This short document highlights some key economics parameters specific to the French retail pharmacies:

- 2023 Euro-5 comparisons re. network of retail pharmacy outlets and gross margins
- 2018 – 2023 evolution of sales and margins per outlet
- 2018 – 2023 outlets performance by size and location
- 2023 structure of retail pharmacies sales and gross margins
- Levers and solutions to improve the pharmacies' profits
- Strategic priorities for retail pharmacies

Smart Pharma Consulting Editions

- Besides our consulting activities which take 85% of our time, we are strongly engaged in sharing our knowledge and thoughts through:
  - Our teaching activities in advanced masters (ESSEC B-school, Paris Faculty of Pharmacy)
  - Training activities for pharma executives
  - The publication of articles, booklets, books and expert reports
- Our publications can be downloaded from our **website**:
  - 43 articles
  - 86 position papers covering the following topics:
    1. Market Insights
    2. Strategy
    3. Market Access
    4. Medical Affairs
    5. Marketing
    6. Sales Force Effectiveness
    7. Management & Trainings
- Our research activities in pharma business management and our consulting activities have shown to be highly synergistic
- We remain at your disposal to carry out consulting projects or training seminars to help you improve your operations

Best regards

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