



## Location, location: new rules – new challenges

As if the pharmacy game wasn't already tough enough – with falling margins, contracting government subsidies and tightening credit terms from wholesalers – along comes a whole new set of challenges changing pharmacists' ability to establish a new business or relocate an existing one.

The new Pharmacy Location Rules became effective on 18 October 2011. The key changes include:

1. The right to establish a new pharmacy in defined "facilities" and one pharmacy towns, without the need to relocate an existing business.
2. Prevention of:
  - Short distance relocations between 1 km and 1.5 km
  - Long distance relocations
  - The relocation of a pharmacy to an urban locality as an additional pharmacy





## Health Check

*Industry insights brought to you by the Ferrier Hodgson pharmaceutical team*

While the new rules are intended to improve the health of Australians by regulating the distribution of pharmacies and allowing better access to medication, their introduction has created some concern in the minds of pharmacists, financiers and advisors. People want to know:

1. Will these changes have a detrimental impact on the value of pharmacies?
2. Will the number of pharmacies increase now that the approval numbers are “free”?

Firstly, we believe that overall the value of profitable businesses will not be affected by these changes. The exceptions are those pharmacies located in, or close to, the defined facilities and in country towns where there is now the opportunity for another pharmacy to be set up. Even in these instances, smart pharmacists will be able to protect the value of their business either by acquiring the additional number themselves or by partnering up with a friendly pharmacist in the area.

However, when it comes to the valuation of poor performing businesses that have relied in the past on the value of their approval number as a standalone asset, the new rules will have a significant impact.

By abolishing long-distance relocations and removing the financial barriers to acquiring a new approval number, the value of existing approval numbers will be significantly diminished. If pharmacists (and their financiers) had put the value of their approval number at a minimum of, say, \$500,000, they may be in for a rude surprise. Under the new regime, those approval numbers in a location with restricted usage or where the new rules allow the opening of new pharmacies may have been reduced to a fraction of what they were – or to nothing at all.

Overall however, the changes in the location rules, to the extent that they do not change business performance and business risks, will not impact on the values of well-performing businesses. Further, in some instances the new rules will provide greater security by limiting the ability of other pharmacies to move into some locations for five years or more. In these instances the value of pharmacies may actually increase.

We are not expecting to see a significant change in the total number of pharmacies in the medium to long term. The granting of “free” approval numbers will be welcomed by pharmacists wanting to establish new pharmacies as it represents a significant reduction in establishment costs. However, usually the early years of establishing a new pharmacy are difficult and it is not uncommon for a new business to take two or three years before it turns its first profit. Therefore, obtaining the finance to establish a new business may not be as easy as it was in the past.



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