

## The News Bulletin of James Dudley Management

### Patchy Growth in Number of Retail Pharmacies in Europe



Between 2006 and 2015 the average increase in the number of pharmacies in Europe was 5.7% (figure 1).

Markets where growth has been greatest fall into two categories. First, in Central European States the increase in numbers has been fuelled by economic development and the growth of retail chains despite setbacks in Poland.

Second, in a number of States the growth in the number of retail pharmacies has driven by changes to pharmacy establishment regulations. These include Slovak Republic, Sweden, Norway, Denmark, and the Netherlands

So says 'OTC Distribution in Europe' - the 2016 edition – the New Global Agenda from James Dudley Management.

There was a surge in growth in the number of pharmacies in the United Kingdom between 2011 and 2013 due in part to a recently expired exemption on restrictions on new openings for pharmacies which operate at least 100 hours a week. That said, the growth in numbers in the United Kingdom has come to an end and consolidation is expected.

In Germany the number of pharmacies has been reducing since 2000 and this is largely due to market saturation. Despite a short lived recovery in numbers after January 2004 when pharmacists were first allowed to open up to four pharmacies. There are fewer pharmacies in 2016 than in 2006 in Germany.

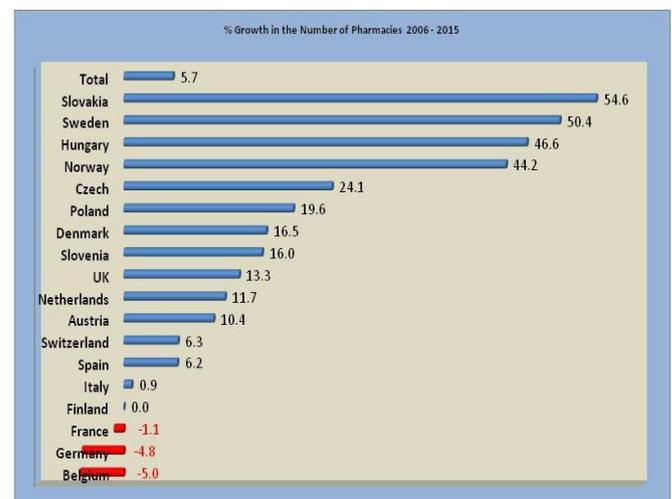
### Celesio to acquire Holon in Portugal

11 April 2016 Celesio announced an agreement with Holon Group to purchase Holon, a major Portuguese branded network of independent pharmacies.

Holon Group is a network of around 380 independent Portuguese pharmacies who share the same brand, image and pharmacy concept. The Holon Group's purpose is to optimise the way pharmacies develop their daily activities, especially those concerning client healthcare services.

The acquisition, which is subject to clearance by the Portuguese Competition Authority

Figure 1: % Growth in the Number of Pharmacies in Europe 2006 to 2015



Source: James Dudley Management – OTC Distribution in Europe – 2016 edition – The New Global Agenda

The numbers of pharmacies in France and Belgium have fallen behind the numbers in 2006. In Italy pharmacy numbers are about the same as in 2006. However, this represents a recovery in numbers since 2011.

## Celesio to acquire Bupa Home Healthcare

Celesio, has reached an agreement with Bupa to purchase Bupa Home Healthcare, a clinical homecare provider.

Bupa Home Healthcare provides clinical care in patients' homes for a number of conditions including those that require speciality medicines such as Intestinal Failure, Lysosomal Storage Disorder, Cancer, Multiple Sclerosis and Rheumatoid Arthritis. The company has a national nursing team and its own aseptic manufacturing facilities.

The acquisition, which is subject to regulatory approval, will see Celesio expand its home healthcare offer. The addition of Bupa Home Healthcare to Celesio UK will complement existing services and strengthen the company's national healthcare infrastructure.

## WBA Sells Off Russian Wholesale Business and Acquires Stake in Health and Beauty Retailer

On April 11 WBA announced that it has sold its local pharmaceutical wholesale business, Alliance Healthcare Russia, to leading Russian health and beauty retail chain 36.6.

36.6 is a leading health and beauty retailer with around 1,000 stores in Moscow and Moscow region. It employs around 4,800 people. Following completion, Walgreens Boots Alliance will own a 15% stake in the 36.6 group



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## WBA Q2 Result



Picture: WBA

Walgreens Boots Alliance reported second quarter results on 5 April.

According to the company adjusted fiscal 2016 second quarter net earnings attributable to Walgreens Boots Alliance<sup>1</sup> increased 14.4% to \$1.4 billion compared with the same quarter a year ago. Adjusted net earnings attributable to Walgreens Boots Alliance per diluted share for the quarter increased 11.0% to \$1.31 compared with the same quarter a year ago. Fiscal 2016 second quarter earnings adjustments were a net increase to GAAP net earnings attributable to Walgreens Boots Alliance of \$493 million or 46 cents per diluted share.

Net sales in the second quarter increased 13.6% to \$30.2 billion compared with the same quarter a year ago, largely due to the full consolidation of Alliance Boots for the entire quarter this year, while foreign currency translation adversely impacted sales by approximately \$750 million or 2.4%.

Combined net synergies were \$329 million in the fiscal 2016 second quarter and \$617 million in the first six months of fiscal 2016. The company continues to expect to reach at least \$1.0 billion in combined net synergies in fiscal 2016 relating to the strategic combination with Alliance Boots. This excludes the synergy benefits related to the company's strategic, long-term

relationship with AmerisourceBergen, the benefits of refinancing the legacy Alliance Boots indebtedness at a lower cost and the proposed Rite Aid acquisition.

### Summary Highlights

**The Retail Pharmacy USA division**, whose principal retail pharmacy brands are Walgreens and Duane Reade, had second quarter total sales of \$21.5 billion, an increase of 2.1% over the year-ago quarter. Sales in comparable stores increased 2.2 percent compared with the same quarter a year ago.

Adjusted gross profit dollars for the division grew by \$162 million, or 2.8%, to \$6.0 billion compared with the same quarter a year ago, driven by increased pharmacy volume and an increase in adjusted gross profit margin. GAAP gross profit dollars for the division grew \$149 million to \$5.9 billion compared with the same quarter a year ago.

The division's GAAP operating income in the fiscal 2016 second quarter increased 10.6% over the year-ago quarter to \$1.4 billion. Adjusted operating income in the second quarter increased 2.1% over the year-ago quarter to \$1.6 billion.

**WBA proposed acquisition of Rite Aid Corporation**, which was announced 27 October 2015, is progressing as planned with Rite Aid's stockholders approving the transaction on 4 February 2016.

**The Retail Pharmacy International division**, whose principal retail brands are Boots in the UK, Thailand, Norway, the Republic of Ireland and The Netherlands, Benavides in Mexico and Ahumada in Chile, had second quarter total sales of \$3.7 billion

**The Pharmaceutical Wholesale division**, which mainly operates under the Alliance Healthcare brand, had second quarter total sales of \$5.6 billion. Sales growth in the quarter was in line with the company's estimate of market growth, weighted on the basis of country wholesale sales.

GAAP operating income was \$299 million, while adjusted operating income was \$335 million.

**AmerisourceBergen Corporation** - WBA exercised warrants to purchase approximately 22.7 million shares of AmerisourceBergen Corporation (as announced 18 March) common stock for an aggregate payment of approximately \$1.17 billion. The transaction was funded using existing cash on hand. Walgreens Boots Alliance also continues to hold warrants to purchase an additional approximately 22.7 million shares of AmerisourceBergen common stock, which the company has the right to exercise beginning in March 2017.

Following the exercise of these warrants, the company beneficially owned approximately 15% of the outstanding shares of AmerisourceBergen common stock

## Legal Case Holds Back French Online Pharmacy

In a battle with the College of Pharmacists 1001 Pharmacie.com loses appeal to a ban on selling prescription medicines online in France. The company run by eNova is a pharmacy portal providing an online patient facilities to over nine hundred affiliated pharmacies and companies across France. Patients can order medicines and other health and beauty products online for home delivery or 'collect in store'.

While it is legal in France for a pharmacy to offer e-commerce for non-prescription pharmaceutical products and other non-dispensed parapharmacy ranges, dispensing prescription only medicines through online channels is not.

1001 Pharmacie was ordered to cease selling prescription only pharmaceuticals by the High Court (TGI) of Paris in August 8, 2014. The company sought an appeal. A judgment of the Court of Appeal of 25 March 2016 upheld the TGI ruling.

Digital pharmacy is relatively new to France. Europe allowed online sales of non-prescription OTC Medicines since 2003, following the well known DocMorris judgment delivered by the Court of Justice the European Communities (ECJ).

But France has been tardy in bringing forward national regulations. A 2011 EU directive against falsified medicines forced the country's parliament to legislate. Indeed, France only brought regulation in line with this in January 2013.

In July 2014 there were 169 Authorized online pharmacies listed on the Ministère des Affaires Sociales, de la Santé et des Droits des Femmes website. By July 2015 the number had increased to 277.

There are an estimated 33.8 million consumers who actively shop online in France. Thus, given time the online pharmacy sector should become significant. However, the online market for non-prescription pharmaceuticals and associated non-pharmacy merchandise remains small.

That said online sales represent around 6% of the beauty and personal care market as reported in [OTC Distribution in Europe 2016 edition](#) and in baby care categories 5% of diapers and 5% of formula are purchased on the Internet.

However, because of the late arrival of online pharmacy most of the beauty and personal care purchases made on the Internet go to the major non-pharmacy specialist sites.



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Mail Order and Internet Pharmacy in Europe covers: Austria, Belgium, Czech Republic, Finland, Denmark, France, Germany, Hungary, Italy, Netherlands, Norway, Poland, Slovak Republic, Spain, Sweden, Switzerland, the United Kingdom and draws comparisons and case studies from the USA.

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