



November 2006

INDUSTRY UPDATE

The Pharmacy Industry PBS Reform Announced

On November 16 2006 Tony Abbott the Minister for Health and Ageing announced some significant Changes to the Pharmaceutical Benefits Scheme ("PBS").

The Federal Government Media Release claims that the changes will give Australians continued access to new and expensive medicines while ensuring the PBS remains economically sustainable in the future.

Details of the Changes

The key changes are being made in order to create price transparency for all drugs and ensure that cheaper pricing for generic or off patent drugs are passed on to the consumers. The changes ensure that consumers will only be required to pay the lower of the standard PBS co-payment (\$4.70 per script for concession holders or \$29.50 per script for others) or the actual cost of the drug, including the costs of dispensing.

The goal is to reduce the dependency on rebate systems used by the drug wholesalers to promote their drugs to pharmacists and in the short term replace those rebates with government funded incentives established to promote a fairer system and ensure the survival of the pharmacists dispensing the drugs.

It is being estimated that consumers will pay between \$0.20c and \$4.65 less for up to 450 drugs, which will now sit below the co-payment line. Whilst the government will pay less for over 3500 generic drugs which are on the PBS list. The saving has been estimated by Mr Abbott to be \$3 billion over the next 10 years.

The savings to the government come from mandatory discounts scheduled to take effect on 1 August 2007 (12.5% for generic drugs) and further discounts of up to 25% to take effect on 1 August 2008 which focus on drugs where price competition is high. The aim is to move to a system of full price disclosure by 2012 where the price paid by the government for the drug will equal the price for which the drug is sold by the wholesaler.

What do the Changes Mean for Pharmacists?

Pharmacists are being compensated and encouraged to prescribe cheaper generic drugs and join the Health

Insurance Commissions PBS online system through incentives. From 1 August 2007 Pharmacists will be paid \$0.40c for each PBS online prescription and from 1 August 2008 \$1.50 for each prescription which costs less than or equal to the co-payment.

Industry talk is not all positive with many industry players saying the new changes are unclear and confusing. There is concern the industry has not fully comprehended the impact the changes will have on the survival of the local pharmacist.

The president of the Pharmacy Guild of Australia has been quoted in weekend press saying the changes will pose *"significant hurt to the industry and could dramatically impact the bottom line of pharmacists making it more difficult for them to deliver professional service and advice"*.

These comments raise further concerns in the industry that full service dispensaries, where the customer receives a consultation and value added services from the pharmacists who prescribe the medicine, will find it harder to survive. Full service pharmacists are now competing in a market place being challenged by discount dispensaries including on line retailers like the now Coles Myer owned online pharmaceutical retailer Pharmacy Direct.

Further pressure is also being placed on the small pharmacist to utilise PBS Online, the Federal Government's online ordering and dispensary system. Those not taking up the system will forego \$0.40c per script, which could add up to many thousands over a year and dramatically impact the bottom line. Further changes like this continue to make it harder for smaller family run and sole trader pharmacies to survive. The pricing changes proposed now appear to make their point of difference of providing value added health services and personalised advice even harder to maintain.

Taylor Woodings Pharmacy Industry Experience

Taylor Woodings has specialist expertise in the pharmacy industry having recently been involved in several assignments that have involved both the trading on and sale of pharmacies. We have developed strong working relationships with the major wholesalers, the Health Insurance Commission, The Pharmacy Guild and specialist



third party service providers in areas such as retail management, valuations, sales and legal services.

Our experience has highlighted that should problems exist it is an opportune time to act for both owners and financiers as despite the issues mentioned above the demand for pharmacy acquisitions is high due to ongoing industry consolidation. Supply remains limited due to the regulatory and licence restrictions. This pressure is driving up valuations to healthy levels. It is not anticipated these levels will be sustainable if deregulation occurs.

Taylor Woodings has a large database of parties interested in acquiring pharmacies.

Taylor Woodings has conducted numerous assignments within the pharmacy industry over recent years including:

- Acting on behalf of secured lenders including financiers and major wholesalers as Receivers & Managers of several pharmacies – both single and multi – site groups. These assignments included the trading and sale of the businesses;
- Acting for financiers and wholesalers as investigating accountants in relation to numerous pharmacies experiencing trading difficulties. Our advice included identifying the formal and informal strategies that could be employed to exit the exposures;
- Conducted a pre-lending review of a franchisor with 25 franchisee members within the pharmacy industry that is rapidly expanding its business nationally via a new business model;
- Advising major wholesalers in relation to difficult trading accounts; and
- Assisting pharmacy owners experiencing difficulties with their trading and developing and implementing turnaround or exit strategies focused on maximising outcomes for all parties.

Through our various assignments we have developed a detailed understanding of the legislative and practical issues associated with formal insolvency appointments and commercial issues associated with the industry.

Should you wish to discuss this matter or require more detailed advice on a particular situation please contact:

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