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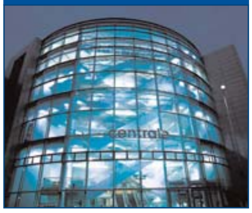
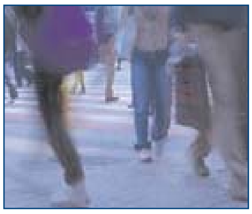
UK Retail Pharmacy Market 2006

Market conditions favour further consolidation among specialists

Sector Report - Published November 2006





Attributes of retail pharmacy models 2006

	Local Community Pharmacy	High Street Pharmacy	Supermarket Pharmacy
Convenience	Convenience for core customers and sick	Convenience for general population	Convenience for general population
Consumer Perceptions	Consumer familiarity & trust	Range authority for pharmacy & related products	Brand awareness & positive price perceptions
Key Differentiator	Strong links with GPs	All-rounder (ranks moderately on most attributes)	Extensive retail network for OTC products
Positioning	Specialist positioning	Broader positioning	One-stop shop

Source: UK Retail Pharmacy Market 2006

"The demands of the new pharmacy contract allied with the need to run a profitable concern favours larger chains rather than small independents. Apart from the savings that can be made in administration and operating costs, large businesses have the advantage of scale in IT implementation, best practice sharing, services marketing, and contract negotiations for enhanced services. These factors are encouraging the continuation of the consolidation trend and reinforcing the desirability for independent pharmacists to belong to an affiliate group..."

About Verdict Research...

Verdict Research has been producing independent retail analysis and comment on the UK retail marketplace for well over 20 years and is regarded as a key source by BBC, ITV and the leading broadsheets including, the FT, Times, Independent and Daily Telegraph. Many leading trade publications also frequently refer to Verdict's opinion and research including Retail Week, DIY Week, Cabinet Maker and The Grocer.

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Some key findings from this new report...

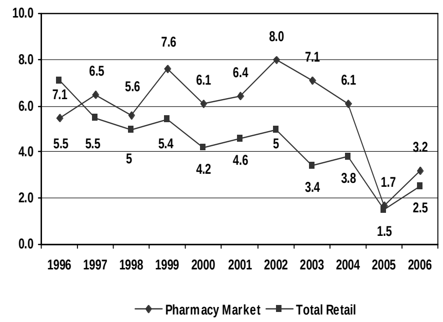
- **The retail pharmacy sector has outperformed total UK retail growth in nine of the 10 years since 1996.** It represents a substantial market for retailers and in 2006 will be worth £12.8bn.

- **Average UK pharmacy income exceeded £1m for the first time in 2005.** Since 2000 the number of prescriptions dispensed per head has risen by 27.8% and NHS pharmacy spend is up 40.4% to £160.50 per capita.

- **UK retail pharmacy market growth is almost guaranteed over the next two decades**, driven by an ageing population profile, government policies, and consumer trends such as demand for convenience.

- **Government policy limits retail pharmacy profitability, favouring larger chains.** Unlike in FMCG where a retailer can negotiate its terms with suppliers, the main 'supplier' in retail pharmacy is the government of the day, and retailers have little control over its policy decisions. Another temporary inhibitor of growth is the lack of supply of qualified pharmacists.

Retail pharmacy market growth vs total retail growth 1996-2006e



Source: UK Retail Pharmacy Market 2006

"We expect 2006 to show relatively slow growth, compared with its average performance over the past decade, but at 3.2% it is still forecast to exceed average retail growth by 0.6 percentage points. We expect growth in NHS receipts to be slower than average as the market moves towards a more heavily service-based model, while the market for OTC and other medical products will remain heavily affected by price competition..."

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UK Pharmacy Retail Market 2006

157 PAGES 63 TABLES 28 FIGURES

In the UK the retail pharmacy market was worth £12.8bn in 2006 making it larger than the homewares market. Yet little is written about this sector as a whole. It is a valuable market and has the potential for sustainable growth for many years ahead. Furthermore the footfall and usage pharmacy brings in to stores offers the opportunity to sell associated health and beauty products. However, extensive changes in the UK retail pharmacy market, including consolidation, increased supermarket participation and regulatory changes, result in a need for operators to employ new strategies to meet changing consumer expectations, whilst defending against new competitive threats.

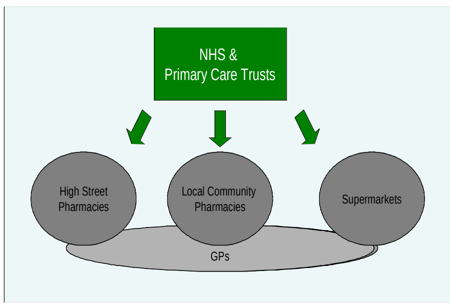
UK Retail Pharmacy Market 2006 is a completely new report from Verdict. It applies Verdict's rigorous analysis to a sector that has been largely overlooked until recently. The report provides market shares and market sizes of the total market as well as of NHS revenue and OTC sales, plus trend analysis including forecasts for 2006. This report details the strategies and performance of the 10 leading players, across traditional community pharmacy groups, such as Lloydspharmacy, high street pharmacies and supermarket operators and assesses the impact of changing market regulations and the newly merged Alliance Boots. It includes key operating statistics of each of the players, including trading records, sales densities, operating margins and store portfolio analysis. It also identifies the key market drivers and assesses the implications for the different types of retailers involved in UK pharmacy.

Identify new revenue opportunities and create both aggressive and defensive strategies to exploit these opportunities and outperform rivals with the unique data in this report.

This new report will enable you to...

- **Quantify the financial opportunities offered by the pharmacy market** with this report's 10 years of value data for NHS and OTC and Other categories, average pharmacy revenues and company-specific sales densities.
- **Understand the key developments in the UK retail pharmacy market** using detailed analysis of market drivers and industry outlook featured within this report.
- **Benchmark your competitive strategies using the company profiles contained in this report** for key retailers including Alliance Pharmacy, Asda, Boots, Co-operative Pharmacy, Lloydspharmacy, WM Morrison, Rowlands, Sainsbury, Superdrug and Tesco.
- **Develop more effective strategic responses** using this report's actionable recommendations for how retailers must cope with the changing market and who will thrive.

Retail pharmacy landscape of the future



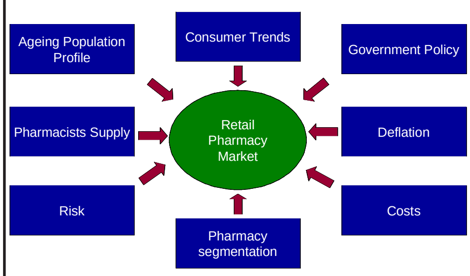
Source: UK Retail Pharmacy Market 2006

"Nevertheless competition is increasing which will put pressure on the community pharmacy. These businesses are specialists and service-driven and must have stores that reflect this. This means investing in the store format to create an environment that inspires trust in the health credentials and expertise of the retailer and providing personal services such as home delivery, that cement the relationship with the customer..."

Some key issues examined in this report...

- **The changing retail pharmacy landscape.** The new Pharmacy contract and required provision of services and health checks will make pharmacies create closer links to the NHS and Primary Care Trusts. Pharmacies are not only relieving the pressure on GPs, they are also meeting the demands of a constantly mobile population seeking access to healthcare at any time and in any place.
- **Regulatory changes.** Regulatory influences from reimbursement revisions, relaxation of control of entry requirements, pharmacy numbers to the distribution of pharmacy ownership play a vital role in the size and shape of the UK retail pharmacy market.
- **Alliance Boots merger.** The merger with Alliance gives it a much stronger grounding in the community pharmacy segment where Alliance Moss has developed a convincing local model. Furthermore it can use its marketing might to underline its credentials to consumers.
- **Changing consumer expectations.** Increasing time constraints on dual income households and unmarried professionals have led to general trends towards added convenience across the retail sector.

Market issues in retail pharmacy 2006



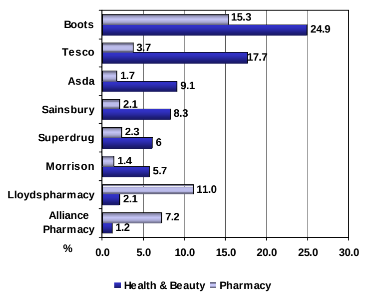
Source: UK Retail Pharmacy Market 2006

"The ageing population profile alone will ensure dispensing volumes continue to increase (they have averaged over 5.0% growth in the past five years) which, unlike in many retail sectors, means that there will be a continual spur to market growth over the next two decades.."

Some key questions answered by this report...

- How should retailers respond to the new dynamics of the UK pharmacy market?
- How can operators and new entrants take advantage of UK pharmaceutical market growth?
- What threat does supermarket expansion pose to pharmacy retail specialists in the UK?
- What measures are UK pharmacy retailers taking to protect their margins?
- Who are the winners and losers in the UK retail pharmacy market – and why?
- What are the key risks in the UK pharmacy market?
- What effect will the Alliance Boots merger have on the market?

Health & beauty and pharmacy market shares 2005



Source: UK Retail Pharmacy Market 2006

"The top nine operators in the market will account for over half the market by the end of 2006 - but the majority of this share is in the hands of the four leading pharmacy specialists: Alliance Boots, Lloydspharmacy, Rowlands and Co-operative Pharmacy, who control 40.9% of the market..."

Sample information from 'UK Retail Pharmacy Market 2006'

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