Global pharma market outlook - with focus on emerging markets

Elisabeth Beck, President East Europe, IMS Health
Global spending on drugs will reach more than $1.2 trillion by 2017 with a rising growth rate.

Global Sales and Growth, 2008-2017

Source: IMS Health Market Prognosis, Mar 2013
Brand growth balanced by Loss of Exclusivity (LOE), Pharmerging driving the growth

Components of Change in Total Spending

Source: IMS Market Prognosis, *Other includes Rest of World absolute growth and exchange rate changes
IMS Health increases Pharmerging countries to 21 as healthcare improvement becomes global priority

**PHARMERGING**

**Tier 1**
- China

**Tier 2**
- Brazil
- Russia
- India

**Tier 3**
- Algeria (new)
- Argentina
- Colombia (new)
- Egypt
- Indonesia
- Mexico
- Nigeria (new)
- Pakistan
- Poland
- Romania
- Saudi Arabia (new)
- South Africa
- Thailand
- Turkey
- Ukraine
- Venezuela
- Vietnam

*Pharmerging markets definition:*
$1Bn incremental sales in 5 years
The 17 Tier 3 markets represent a wide array of income levels, growth rates and healthcare sophistication

### 2012 Pharma sales >$85 per capita

<table>
<thead>
<tr>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>PL</td>
<td>397M</td>
<td>$6.4T</td>
<td>$82bLn</td>
<td>$96-$222</td>
</tr>
</tbody>
</table>

- Majority urban population
- Higher government healthcare spend
- Stricter cost containment measures
- Typically better intellectual property (IP) protection

### 2012 Pharma sales <$85 per capita

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>VN</td>
<td>982M</td>
<td>$4.3T</td>
<td>$45bLn</td>
<td>$7-$81</td>
</tr>
</tbody>
</table>

- Majority rural population (ex AL+ ZA)
- Higher poverty rate
- Higher out of pocket spend
- More limited access to healthcare

Source: IMS Health Market Prognosis, March 2013, at ex-manufacturer price levels, LC$. Contains Audited + Unaudited data, CIA Factbook, IMF

Global pharma market outlook - Elisabeth Beck

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Global pharmaceutical growth is driven by pharmerging markets while EU 5 will show only slight recovery.

### 2011-2016: Global Sales & Market Growth

- **Global Growth**
- **EU5 Growth**

#### Developed Markets

**CAGR 2012-2017**

<table>
<thead>
<tr>
<th>Country</th>
<th>CAGR</th>
</tr>
</thead>
<tbody>
<tr>
<td>US</td>
<td>1 - 4%</td>
</tr>
<tr>
<td>Japan</td>
<td>2 - 5%</td>
</tr>
<tr>
<td>Germany</td>
<td>1 - 4%</td>
</tr>
<tr>
<td>France</td>
<td>(-1) - 2%</td>
</tr>
<tr>
<td>Italy</td>
<td>0 - 3%</td>
</tr>
<tr>
<td>Canada</td>
<td>1 - 4%</td>
</tr>
<tr>
<td>Spain</td>
<td>(-4) - (-1)%</td>
</tr>
<tr>
<td>UK</td>
<td>1 - 4%</td>
</tr>
</tbody>
</table>

**Developed** 1 - 4%

#### Pharmerging Markets

**CAGR 2012-17**

<table>
<thead>
<tr>
<th>Tier 1</th>
<th>Country</th>
<th>CAGR</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>Tier 1</td>
<td>15 - 18%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Tier 2</th>
<th>Country</th>
<th>CAGR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brazil</td>
<td>Tier 2</td>
<td>10 - 13%</td>
</tr>
<tr>
<td>Russia</td>
<td></td>
<td>9 - 12%</td>
</tr>
<tr>
<td>India</td>
<td></td>
<td>11 - 14%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Tier 3</th>
<th>Pharmerging</th>
<th>CAGR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pharmerging</td>
<td>Tier 3</td>
<td>11 - 14%</td>
</tr>
</tbody>
</table>

**Value Previous Period Growth % (LCUS$)**

- **Value Sales in US$ Billion**
- **2017 (f)**
- **2016 (f)**
- **2015 (f)**
- **2014 (f)**
- **2013 (f)**
- **2012 (f)**

Source: IMS Health Market Prognosis, March 2013, at ex-manufacturer price levels, not including rebates and discounts.
Many of these countries are implementing healthcare reforms to ensure universal coverage

**Vietnam**
- Plans to increase universal health insurance coverage to 75-80% population by 2015; 90% by 2020
- National Target Program for Health 2015
  - Programme includes diabetes focus, increasing early diabetes detection by providing screening programmes and a nation-wide disease treatment network by 2015

**India**
- India aims to introduce universal health coverage during the 12th five year plan (2012-2017), but the public health system faces massive problems with inadequate infrastructure, poor funding and inefficiency
  - Public health experts have recommended that the government move from 'insuring' to 'assuring' health by investing in primary care

**Brazil**
- Plans for expansion and improvement of the public health infrastructure and more widespread provision of subsidised medicines
- National List of Essential Drugs and Popular Pharmacy Programme increased the number of drugs covered under the scheme and will see further improvements over the next years

Healthcare reforms will lead to greater patient population coverage
Although diabetes accounts for a large proportion of spend, oncology has seen one of the biggest rise in pharmerging.

**Pharmerging: Top TAs by Value over last 10 years**

<table>
<thead>
<tr>
<th>Rank</th>
<th>2003</th>
<th>2013</th>
<th>10 year CAGR</th>
<th>YoY Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Cephalosporins</td>
<td>15%</td>
<td>3%</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Vitamins and Minerals</td>
<td>23%</td>
<td>18%</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Anti-Rhuematics</td>
<td>27%</td>
<td>18%</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Penicillins</td>
<td>14%</td>
<td>11%</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Non-Narcotic Analgesics</td>
<td>20%</td>
<td>14%</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>Anti-Ulcerants</td>
<td>20%</td>
<td>14%</td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>Anti-Diabetes</td>
<td>21%</td>
<td>13%</td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>Respiratory</td>
<td>17%</td>
<td>10%</td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>Macrolides</td>
<td>12%</td>
<td>10%</td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>Respiratory</td>
<td>17%</td>
<td>10%</td>
<td></td>
</tr>
<tr>
<td>11</td>
<td>Hospital Solutions</td>
<td>17%</td>
<td>10%</td>
<td></td>
</tr>
<tr>
<td>12</td>
<td>Lipid Regulators</td>
<td>17%</td>
<td>10%</td>
<td></td>
</tr>
<tr>
<td>13</td>
<td>Penicillins</td>
<td>17%</td>
<td>12%</td>
<td></td>
</tr>
<tr>
<td>14</td>
<td>Fluoro-Quinolones</td>
<td>19%</td>
<td>14%</td>
<td></td>
</tr>
<tr>
<td>15</td>
<td>Anti-Depressants</td>
<td>19%</td>
<td>14%</td>
<td></td>
</tr>
<tr>
<td>16</td>
<td>Oncologics</td>
<td>17%</td>
<td>12%</td>
<td></td>
</tr>
<tr>
<td>17</td>
<td>Calcium Antagonists</td>
<td>18%</td>
<td>8%</td>
<td></td>
</tr>
<tr>
<td>18</td>
<td>Dietetics</td>
<td>20%</td>
<td>14%</td>
<td></td>
</tr>
<tr>
<td>19</td>
<td>Vasotherapeutics</td>
<td>18%</td>
<td>16%</td>
<td></td>
</tr>
<tr>
<td>20</td>
<td>Functional GI Disorders</td>
<td>16%</td>
<td>14%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Expectorants</td>
<td>24%</td>
<td>12%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Platelet Aggregation Inh.</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Excluding Chinese Medicines

Source: IMS Health, MIDAS, MAT June 2013. Growth calculated on LCUS$
Funding for the high growth in pharmerging markets remains one of the biggest challenges

Patients are still a key source of funds

OOP: Out of pocket

International Aid: common in frontier markets

Government funding: severely impacted in times of austerity

Health insurance: gaining in importance

OOP: a key funding source in developing countries

Pharmaceuticals funding

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In the future, three trends will change the face of generic market in Pharmemerging markets

**FUTURE TRENDS IN THE GENERIC MARKET**

- **Branded generics slow down**
  - It will decrease over time due to payer pressure to reduce costs via commoditization, with two important caveats:
    - In many countries it will be years if not decades before the balance shifts from the branded model
    - Brands will remain strong in the out-of-pocket and OTC market

- **Improved manufacturing standards**
  - It will reduce the power of the brand as a surrogate for product quality
    - With more consistent quality standards, the price differentials between originals, branded and unbranded generics will narrow
    - Many local players will find GMP compliance difficult and be bought or may exit the market

- **A few dominant players & business models**
  - With fast consolidation ongoing, some manufacturers will reach sufficient size, organically or through M&A, to be dominant players
  - Manufacturers can focus on more differentiated prescription products and consumer medicines where brand power will remain strong.
    - Biosimilars will be an important niche within this business model
But payers and R&D players are trying to find a trade off between innovation and affordability.

**PRICE TO REFLECT INNOVATION**

**PRICE TO IMPROVE AFFORDABILITY**

**RISK FOR R&D PLAYERS:**
- Lower volumes
- Patent revocation and compulsory licensing
- Fewer opportunities to engage governments to mutual benefit

**OPPORTUNITY FOR R&D PLAYERS:**
- Higher volumes
- Less risk of adverse government action
- Better corporate image
Access to innovation
Prognosis show double digit growth up to $5m annual sales

- Growth has been driven by both volume and price increases
- Price growth of existing products will slow as rates of inflation and currency depreciation slow
- Rapid economic growth and rising incomes have translated into growth in out-of-pocket spending

- Strong growth will continue, driven by the expansion of the social health insurance system
- Control over government hospital budgets is tightening as more people are being enrolled in the social health insurance scheme
- Sharp increase in hospital fees will impact accessibility for poorer patient groups

Source: IMS Health Market prognosis, March 2013; *Constant exchange rate (Qtr IV 2012)
Vietnam will increase public healthcare scheme with incentives mainly for locally produced generics

**What are the drivers?**

- Expansion of social health insurance coverage, with the objective to have 85% in 2020.
- Expansion of the hospital sector in order to ease overcrowding, with the aim of shifting the focus of healthcare provision from the central hospitals to the provincial and district hospitals.
- Foreign investment will help expand the private hospital market.

**What are the constrains?**

- Greater emphasis on cheaper products for public healthcare facilities and promotion of locally produced generics, aiming to increase their market share to 70% by 2020.
- Increased fees for healthcare services at public hospitals affecting affordability for those who are not covered by social health insurance.
- Delays in the drug registration system for new drugs due to the need of local clinical trails.

**What are MNCs doing in Vietnam?**

- Companies increasingly focus sales efforts on community pharmacists (substitution).
- Preparations for an increase in primary care/GP environment.
- Foreign companies seeking to build production capacity via acquiring/partnering with local manufacturers.
Brazil at a glance

Pharma market will reach $50m annually by 2017

Source: IMS Health Market prognosis, March 2013: *Constant exchange rate (Qtr IV 2012)
Drivers and constrains will change the Landscape in Brazil in the next years

**What are the drivers?**

- Market entry of premium priced innovative drugs
- Government's commitment to delivering better healthcare provision and improve the quality of services provided by the public health system
- Strengthening primary care provision will remain a key health policy goal
- Demand for generics will continue to rise

**What are the constrains?**

- Retail prices will come under growing pressure reflecting competition for market shares and the introduction of tighter price regulatory controls.
- A period of slower economic growth affecting both patient expenditure and public health budgets
- Efforts to regulate promotional activity more effectively, this will erode the degree to which manufacturers can influence prescribing trends

**What are MNCs doing in Brazil?**

- Tech transfer as part of public-private partnership for a total of 55 drugs
- Increased interest in OTC-sector of local and multinational manufacturers
- Heavy discounting for Generics has begun to erode industry margins
“The New Normal”: Innovation driven pharmacos have to strike a balance between mature and pharmerging

Overall value growth in the mature markets remains flat

- Treatment volume continues to increase but not for original brands
- Generic opportunities are ruthlessly explored by payers
  - Laggards are putting policies in place to catch up (eg Japan, Spain)

Pharmacos are banking on emerging markets to provide much needed growth opportunities

- These markets still struggling to find a sustainable form of healthcare financing with big gaps between aspiration and delivery (eg Russia)
- Very strong focus on generics and older original brands (eg Poland)
Pricing & Market Access is considered the most critical issue in pharmerging countries

Senior Executives shared key issues affecting growth prospects

*Can have more than 1 mention in the response

E.g response: market access, price cuts, reimbursement, corruption includes 3 mentions of PMA

Source: IMS Client Survey to Senior executive of the pharma industry in emerging markets, November 2012 N=85

Q2: What are the most important business issues that you face over the next 12 months? Q3: What business issues do you expect will become more important over the next 3-5 years?
In each pharmerging country companies have a wide set of choices to define the appropriate strategy.

### Key strategic choices

#### Portfolio Priorities
Typically decided regionally or globally

<table>
<thead>
<tr>
<th>Product specialisation</th>
<th>Consumer</th>
<th>Primary care</th>
<th>Specialty care</th>
<th>Niche</th>
</tr>
</thead>
<tbody>
<tr>
<td>Product protection</td>
<td>Protected originals</td>
<td>Unprotected originals</td>
<td>Branded generics</td>
<td>INN generics</td>
</tr>
</tbody>
</table>

#### Local Business Structure
Typically decided for each country separately

<table>
<thead>
<tr>
<th>Priority</th>
<th>Investments</th>
<th>Partnerships</th>
<th>Organization</th>
</tr>
</thead>
<tbody>
<tr>
<td>None</td>
<td>None</td>
<td>None</td>
<td>Single entity</td>
</tr>
<tr>
<td>Via distributors</td>
<td>Portfolio licensing</td>
<td>Sales</td>
<td>Business units</td>
</tr>
<tr>
<td>Minimal presence</td>
<td>Local manuf.</td>
<td>Manufacturing</td>
<td>Separate operating entities</td>
</tr>
<tr>
<td>Full affiliate</td>
<td>Local acquisition/stake</td>
<td>Other</td>
<td></td>
</tr>
</tbody>
</table>

Global pharma market outlook - Elisabeth Beck
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A professor hands out the documents for the final examination. One student jumps up and says:

„But professor, those are the same questions you asked us last semester!“

The professor says:

„True, but the answers have changed!“