



Pharmaceutical Sector Brazil

December 2014

Produced by:



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I. Pharmaceutical Sector Overview

Pharmaceutical Sector Highlights

Overview

The Brazilian pharmaceutical market is the sixth largest in the world and second only to China among emerging markets in terms of sales value. The market expanded by 16.8% in 2013, reaching a value of BRL 58bn (USD 25.9bn), according to healthcare consulting company IMS Health. In volume, the sales of drugs stood at 2.9 billion units, 11.7% up from 2012. Overall prospects remain positive, as the market is expected to expand by a further 10-12% in value terms in 2014.

Growth Drivers

The pharmaceutical market of Latin America's largest economy is forecast to reach sales of up to USD 46bn by 2018, growing at a CAGR of 12%. The expanding Brazil's middle class supported by the continued real growth in household income and strong labour market, the aging of the country's 200 million population and the changing consumer preferences, combined with the increased public spending on health will be the main drivers of sector growth in the medium term.

Sector Development

The prescription drugs continue to dominate the market, accounting for nearly half of the total drug sales in Brazil. However, a structural transformation of the domestic demand is underway. The new demographics and lifestyle patterns combined with improvement of the income distribution and social ascending resulted in faster growth of the generic and over-the-counter (OTC) drugs. The generics are expected to be the largest contributor to the growth of the pharmaceutical sector in Brazil by 2020.

Foreign Interest

The fast-growing pharmaceutical market has attracted several multinational companies in the recent years. In 2009, France's Sanofi-Aventis acquired the largest Brazilian generics manufacturer Medley for an enterprise value of BRL 1.5bn. In 2012, Japan's Takeda Pharmaceuticals struck a BRL 500mn deal to buy Brazilian generic and OTC drugs maker Multilab. In February 2013, U.S. drugstore chain CVS Caremark acquired Drogaria Onofre, Brazil's eighth-largest drugstore chain by sales, for an estimated USD 600mn.

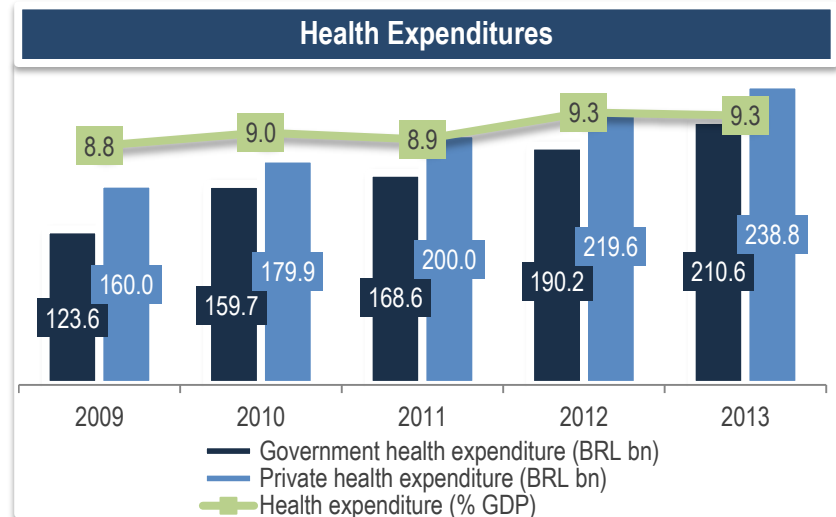
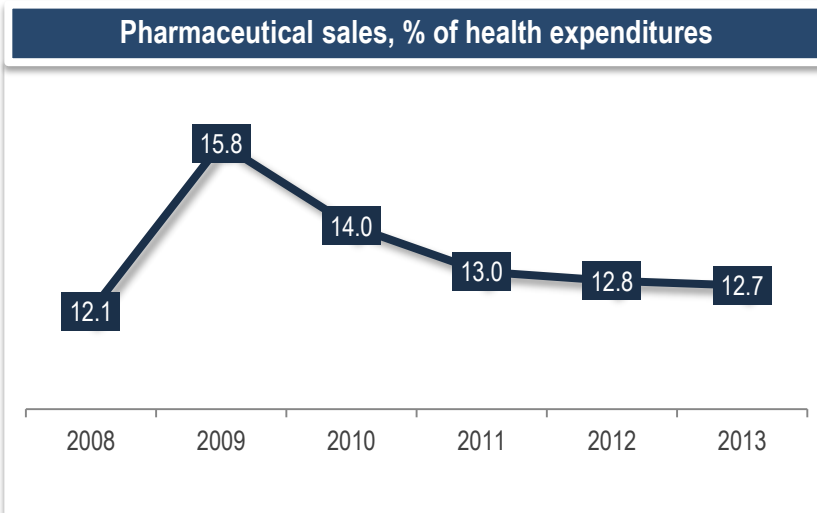
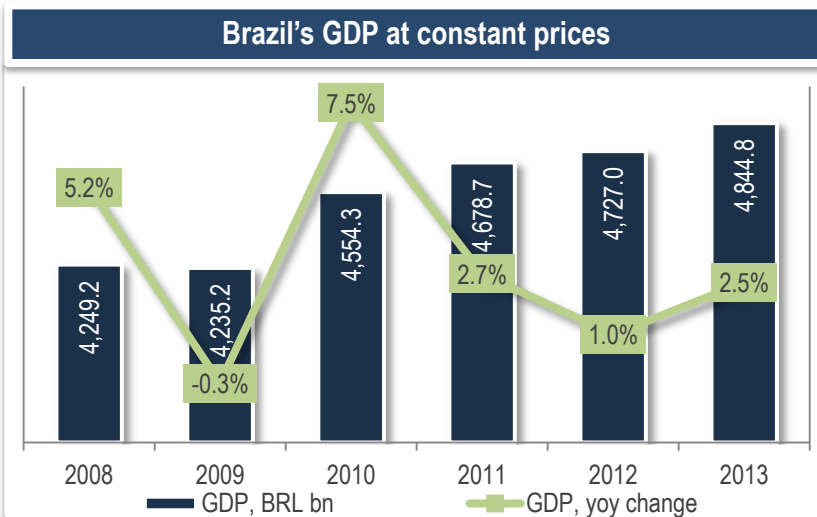
Economic Importance

Main Indicators						
	2008	2009	2010	2011	2012	2013
Total population (mn)	191.5	193.5	195.5	197.4	199.2	201.0
Population under 15 (%)	26.4	25.9	25.5	25.0	24.6	24.1
Population over 60 (%)	9.6	9.9	10.2	10.5	10.8	11.0
GDP, current prices (USD bn)	1,650.9	1,625.6	2,143.9	2,475.1	2,247.3	2,243.1
GDP, constant prices (% change)	5.2	-0.3	7.5	2.7	1.0	2.5
GDP per capita, current prices (USD)	8,619.4	8,399.3	10,966.5	12,538.5	11,279.1	11,157.8
Total health expenditure (% of GDP)	8.3	8.8	9.0	8.9	9.3	n/a
Total health expenditure per capita (PPP int. USD)	860.9	906.6	1,007.7	1,035.2	1,108.7	n/a
Government health expenditure (% of total Government expenditure)	5.7	5.9	10.7	8.7	7.6	n/a
Government health expenditure per capita (PPP int. USD)	368.1	395.0	473.8	473.5	514.6	n/a
Private health expenditure (% of total health expenditure)	57.2	56.4	53.0	54.3	53.6	n/a
Private health expenditure (PPP int. USD)	492.8	511.6	533.9	561.7	594.1	n/a
Out-of-pocket expenditure (% of private health expenditure)	56.0	57.2	57.8	57.8	57.8	n/a

Source: CEIC, World Health Organization (WHO)

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Economic Importance (cont'd)

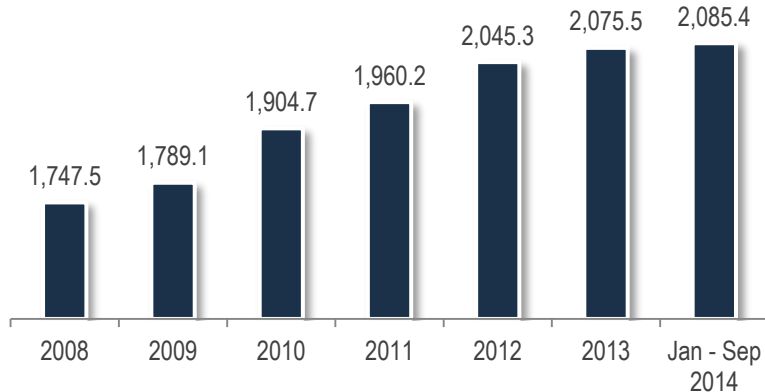


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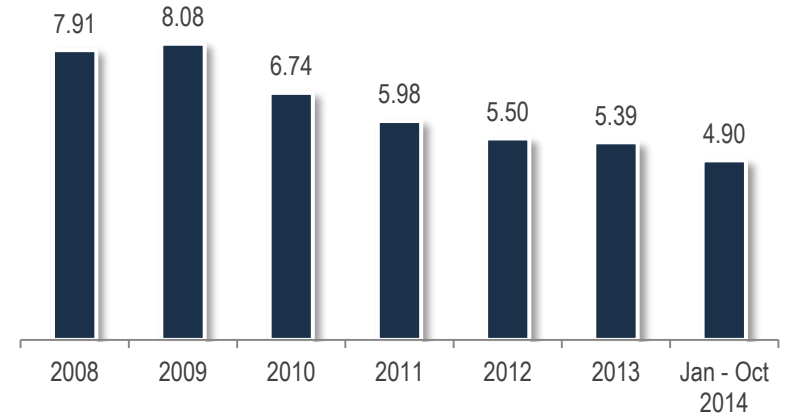
- Despite the recent fluctuations in economic activity, Brazil's total health expenditures increased by 59% for the period 2009-2013, reaching BRL 450bn (9.3% of GDP). The public spending was the main driving force, growing at a CAGR of 14.3%. However, the private sector still prevails in terms of expenditure as a consequence of relatively high and stable out-of-pocket expenses of the population.
- Brazil spent about 12.7% of its health expenditure on drugs in 2013. The sales of pharmaceuticals accounted for 1.18% of GDP in 2013, below the global average of 1.3%, highlighting the growth potential of the sector.

Drivers of Sector Growth

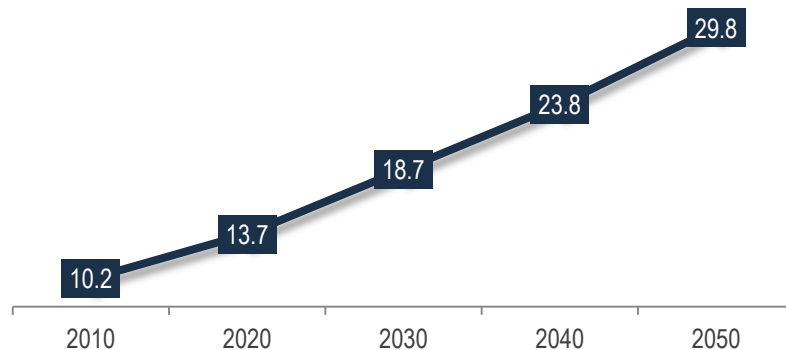
Real Average Monthly Earnings per Employed Person (BRL)



Average Unemployment Rate (%)



Aging of Population (% of 60+)



Comments

- The expansion of the middle class boosted by the continued increase in real average income and the strong labour market (considered to be at full employment) proved to be the major growth factor of Brazil's drugs market over the last five years.
- In 2013, the middle class, with a monthly income of between BRL 320 and BRL 1,120 per person, accounted for about 108 million people, or nearly 54% of the population.
- The aging of the population, the improved access to health services combined with the changing consumer patterns and disease profile of the country, also support the long-term growth of the sector.

Sector Forecast

Health and Pharmaceuticals Dynamics

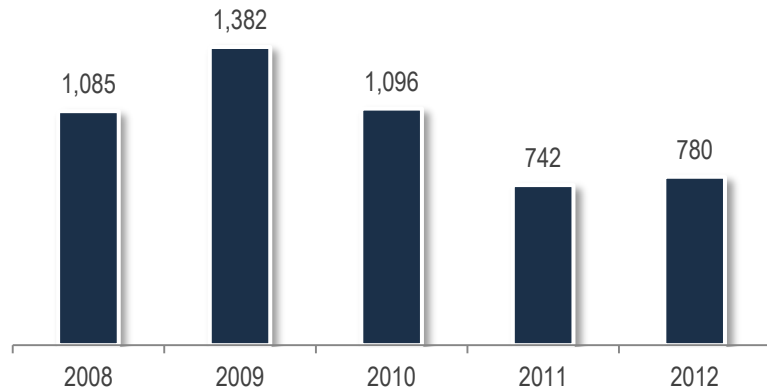
	2014f	2015f	2016f	2017f	2018f
Health expenditure (BRL bn)	492.5	539.1	589.5	642.9	699.5
Health expenditure, yoy change (%)	9.6	9.5	9.4	9.1	8.8
Health expenditure (% of GDP)	9.44	9.56	9.64	9.71	9.69
Health expenditure per capita (USD)	1,046	1,080	1,149	1,229	1,371
Private health expenditure (% of total)	52.4	51.6	51.1	50.5	50.0
Pharmaceutical sales (BRL bn)	62.0	67.4	73.0	78.7	84.6
Pharmaceutical sales, yoy change (%)	8.8	8.6	8.4	7.8	7.5
Pharmaceutical sales (% of GDP)	1.19	1.19	1.19	1.19	1.17
Pharmaceutical sales (% of health expenditure)	12.6	12.5	12.4	12.2	12.1
Pharmaceutical sales, per capita (USD)	131.7	135.0	142.3	150.5	165.8

Comments

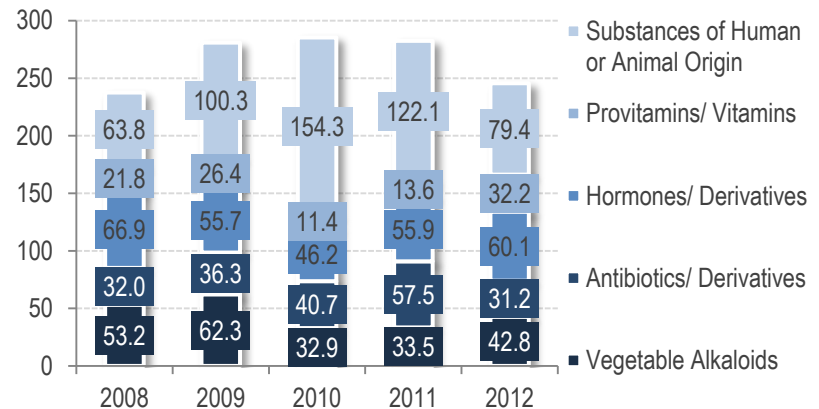
- Brazil's health expenditure is expected to grow at a CAGR of 9.2% through 2018, supported by increased investments in the country's universal and free public healthcare system (Sistema Unico de Saude) in line with Government's initiatives to improve access to health services and pharmaceuticals among underserved population.
- The increasing disposable income of Brazil's middle-class population, and, hence, the demand for high-quality health services, will boost, in turn, the private health expenditure.
- The upward trend in health spending should have a positive impact on the pharmaceutical sales, which are expected to reach a value of USD 36-46bn by 2018 (growing at a CAGR of 9-12%), making Brazil the fifth largest market globally, according to IMS Health. BMI gives a more conservative estimate of the market of USD 34.5bn by 2018.
- The share of pharmaceuticals in the total health expenditure will remain stable at 12%, while per capita spending is forecast to reach USD 165.8 by 2018, 26% up from 2013, boosted by higher demand for chronic disease and biological medicines as well as for generic and OTC drugs.

Pharmaceutical and Pharmaceutical Production

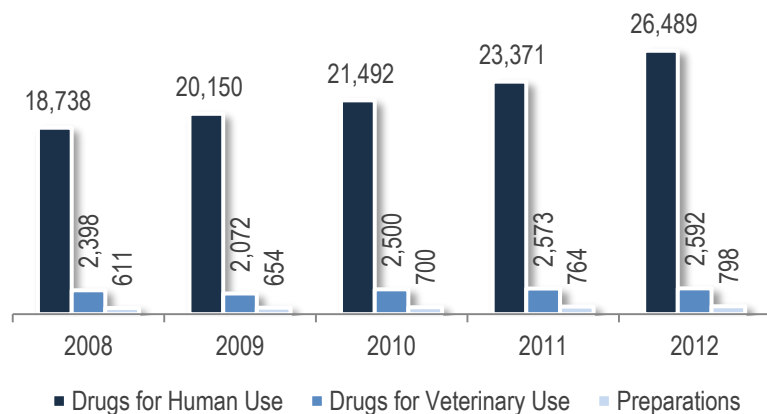
Pharmaceutical Production (BRL mn)



Segment-wise Pharmaceutical Production (BRL mn)



Segment-wise Pharmaceutical Production (BRL mn)

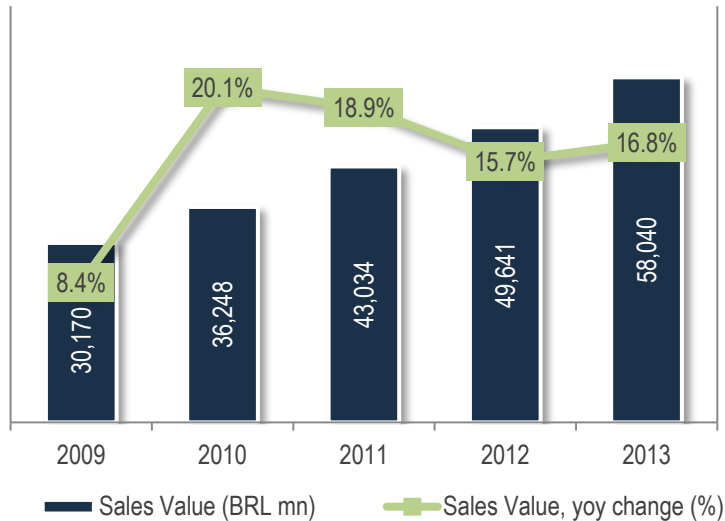


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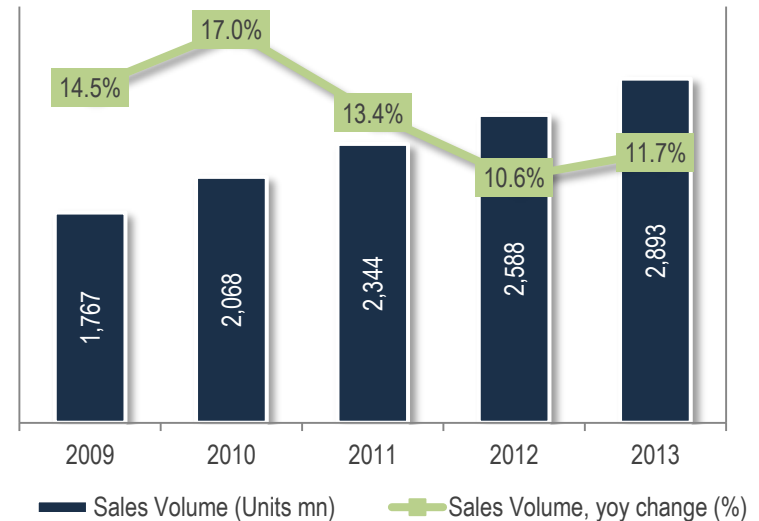
- In contrast to the volatility in the production of pharmaceuticals, the pharmaceutical sector evidenced a solid output growth over 2008-2012 (CAGR of 8.4%).
- The production of drugs for human use has been growing at an average rate of 9.1% since 2008, reaching a value of BRL 26.5bn in 2012 or 88.7% of total pharmaceutical output. The production of drugs for veterinary use remained practically unchanged, with a 9% share in total output.
- In 2013, the capacity utilisation of the pharmaceutical sector of 76.9% (+1.8pp y/y) remained below the manufacturing industry average of 84.3%.

Drug Sales

Drug Sales Value



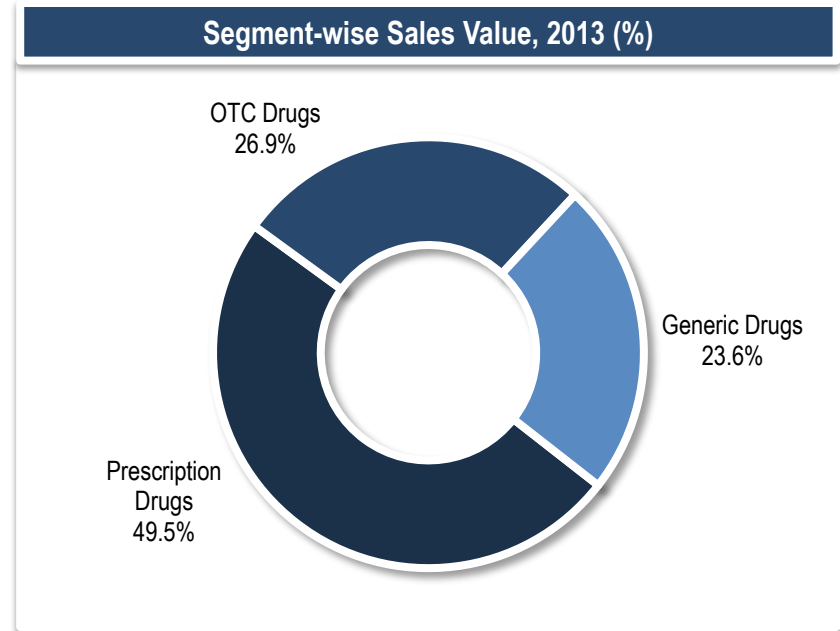
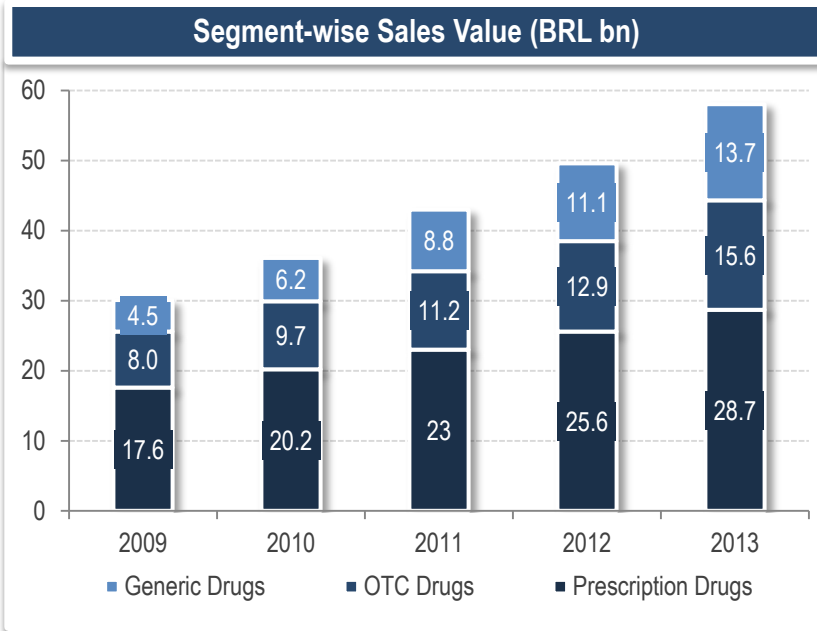
Drug Sales Volume



Comments

Brazil's pharmaceutical market nearly doubled in size over the period 2009-2013, expanding at a CAGR of 17.8%, driven by growing public health expenditure and increasing household income. In 2013, the retail drug sales reached a value of BRL 58bn (USD 25.9bn), making Brazil the sixth largest market in the world, accounting for 3.98% of global sales (based on ex-factory prices, taxes included, no discounts). In volume, nearly 2.9 billion units were sold during the year, 63.7% up from 2009. Considering the average commercial discounts practiced by the retail distribution channels of 34.79%, the retail drug sales stood at BRL 37.8bn in 2013, 13.1% up y/y.

Drug Sales (cont'd)

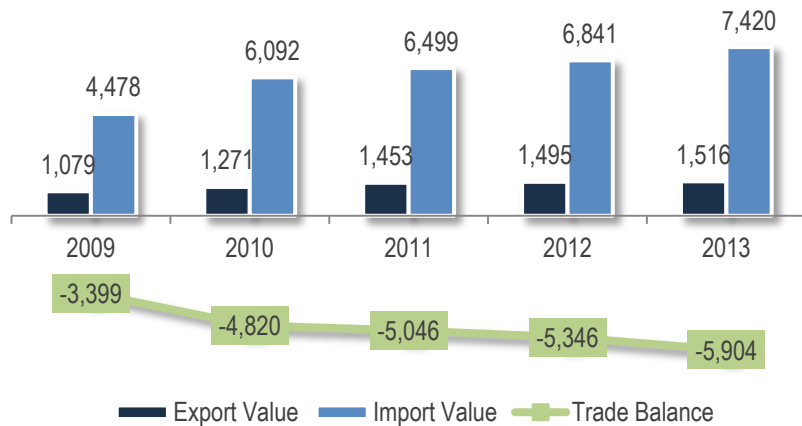


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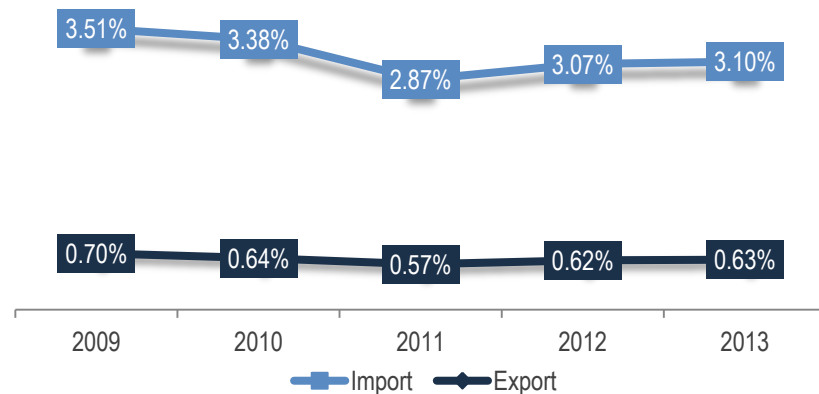
The sales of prescription drugs rose by a CAGR of 12.9% over the period 2009-2013, below the average market growth rate, and, therefore, saw their market share drop to less than 50% in 2013. The OTC drugs followed the pace of the overall pharmaceutical market and expanded at a CAGR of 18.2% in five years. The generic drug segment proved to be the driving force of the market, as its sales more than tripled in value since 2009, soaring at a CAGR of 32%. Overall, the higher growth demand for generics was the main factor for the steady increase of the share of the domestic companies in local pharmaceutical market to 52.7% in value terms, compared to 33.6% in 2003.

External Trade

Pharmaceutical Trade Balance (Chapter 30 HS, USD mn FOB)



Share of Pharmaceuticals in Total Export/Import (%)



Comments

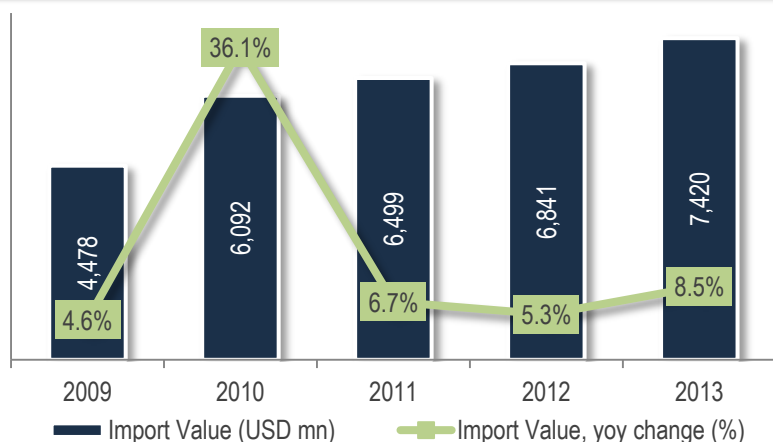
- Brazil is heavily dependent on imports of both pharmaceutical inputs and finished products to satisfy the growing needs of its industrial base and population. Driven by the strong domestic demand in the period 2009-2013, the pharmaceutical imports rose by a CAGR of 13.5% in value, outpacing export growth, and, therefore, leading to a widening of the trade deficit by USD 2.5bn. Only in 2013, Brazil's drug imports exceeded the exports with USD 5.9bn or 0.26% of the country's GDP.
- In order to counteract the growing trade deficit, the Government has embraced an active import substitution policy for the sector, particularly in the areas of vaccines and biotechnology products, by promoting the domestic production and the development of export capabilities through tax incentives and local content requirements.
- Although Brazil's pharmaceutical sector has made its first steps towards internationalisation, its degree of trade openness remains relatively low. In 2013, the share of sector's export in the total exports stood at 0.63%, an improvement from 0.38% in 2003, reflecting a steady increase of the competitiveness of the sector compared to the country's average.

Source: United Nations Commodity Trade Statistics Database (UN Comtrade)

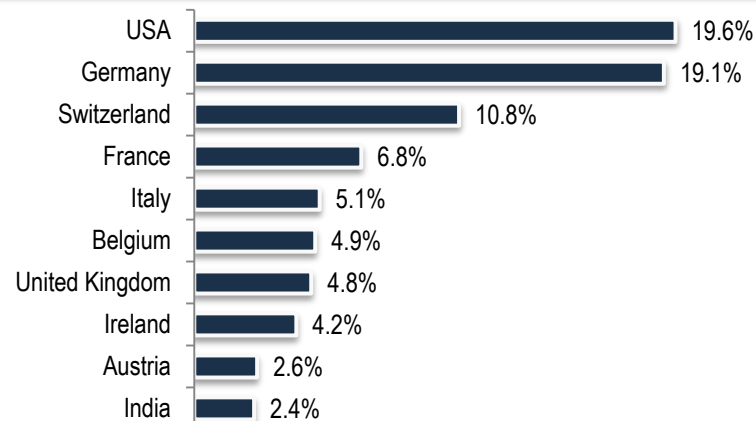
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Imports

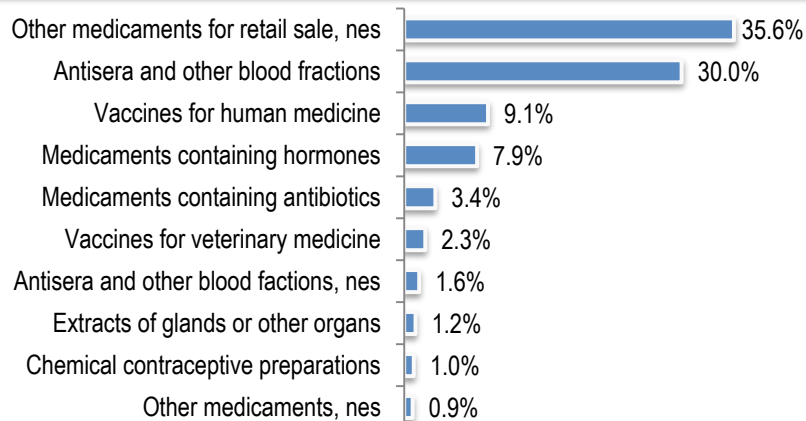
Pharmaceutical Products Import (Chapter 30 HS, FOB)



Top 10 Import Source Countries in Value Terms, 2013



Top 10 Import Products in Value Terms, 2013

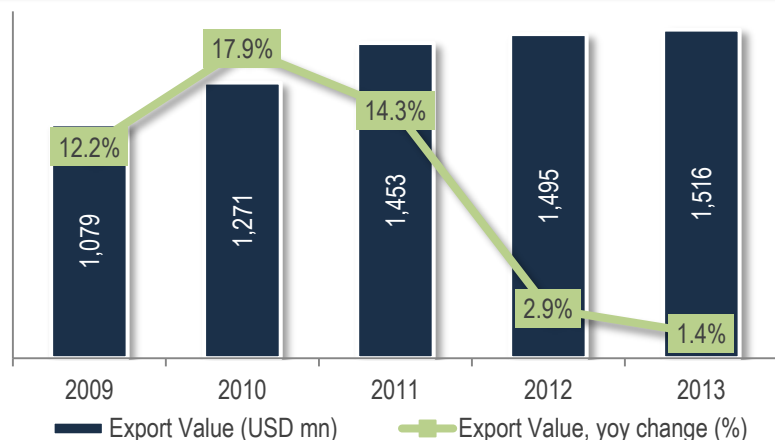


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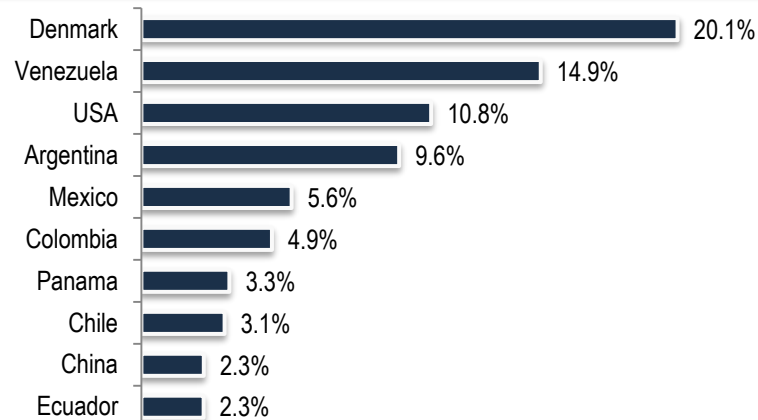
- The pharmaceutical imports in Brazil rose by 66% in value terms in the last five years, reaching USD 7.4bn in 2013, highlighting the country's increasing reliance on foreign branded drugs and finished products, such as antibiotics, steroids, vaccines and biotechnology drugs.
- In 2013, Brazil's imports remained relatively highly concentrated, with its first ten trading partners accounting for over 80% of total imports.
- Other medicaments for retail sale and Antisera and other blood fractions, were the two largest product groups, with a share of nearly 2/3 in Brazil's imports during the year.

Exports

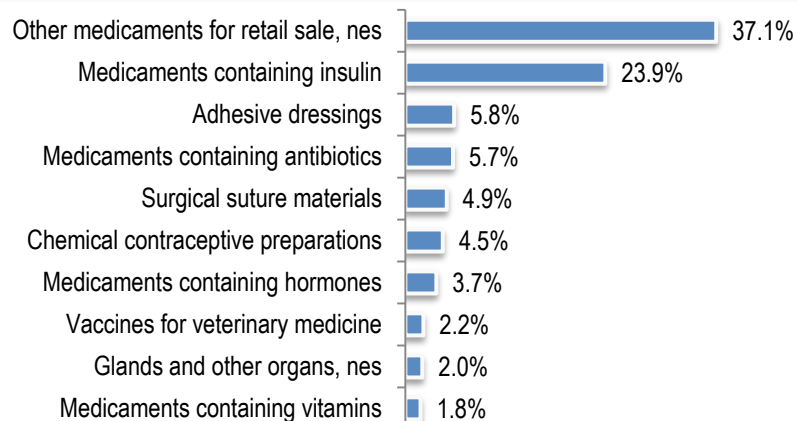
Pharmaceutical Products Export (Chapter 30 HS, FOB)



Top 10 Export Destinations in Value Terms, 2013



Top 10 Export Products in Value Terms, 2013

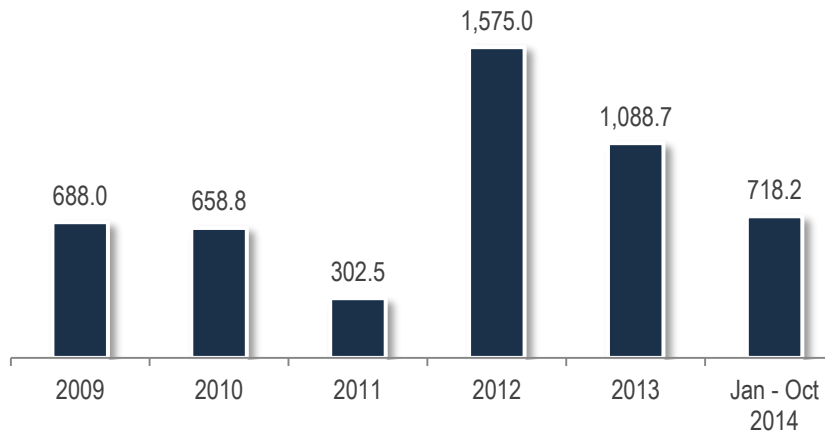


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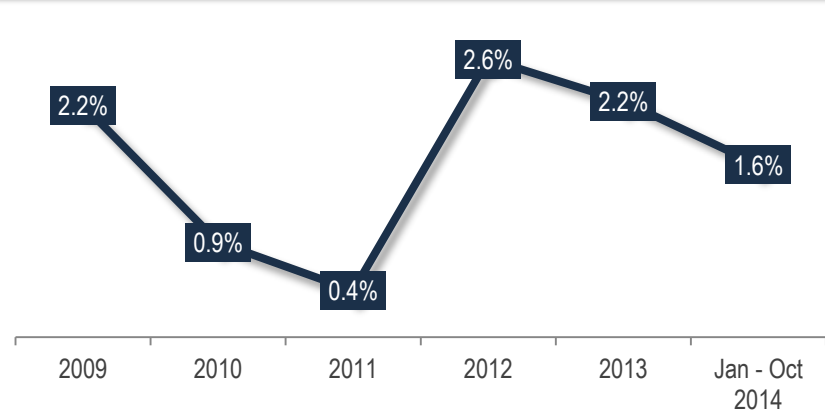
- Over the period 2009-2013, Brazil's pharmaceutical exports increased by 40.6% in value terms and reached USD 1.5bn.
- The main foreign markets for Brazilian drugs are the countries in North America, Latin America, Western Europe and China. The pharmaceutical sector has a relatively high export concentration ratio, with its ten main trading partners accounting for over 77% of total exports.
- Brazil's export is highly concentrated in two product groups, Other medicaments for retail sale and Medicaments containing insulin, which represent over 60% of total exports.

Foreign Direct Investments

FDI Equity Capital Inflow in Pharmaceutical Industry, USD mn



Share of Pharmaceutical Industry in Total FDI Equity Capital

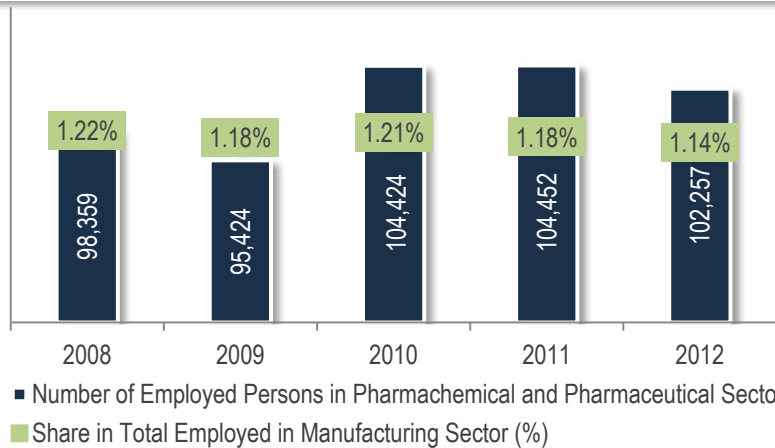


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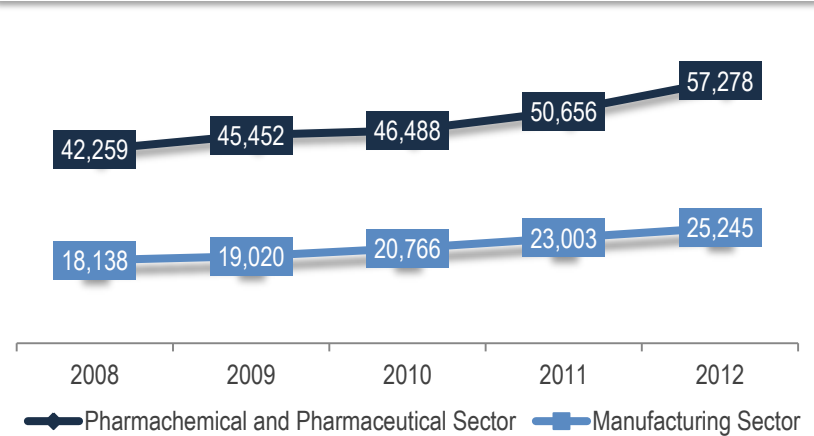
- Brazil's pharmaceutical sector has emerged as the seventh largest recipient of foreign direct investments (FDI) in the form of equity capital among the manufacturing industry, attracting a total of USD 5.7bn for the period Jan 2006 - Oct 2014.
- During 2012-2013 the sector received record-high investments of USD 2.7bn, enhanced by the buoyant domestic demand and new policy measures undertaken by the Brazilian Government, aiming at promoting the development of the production capacity and the technological capabilities of domestic industry. These measures include import tariffs, fiscal incentives, more stringent licensing requirements and increased preference for domestic production in public procurements. The latter significantly induced the "barrier hopping" FDI and the investments in expansion of existing facilities.
- Another main motive for multinational companies to invest in the sector was minimising the impact of the patent cliff by securing access to new revenue streams and low-cost production bases, mainly for generic and biotechnology drugs.
- The investment outlook for 2014 is positive, with FDI inflows expected to remain at previous year's level.

Employment and Wages

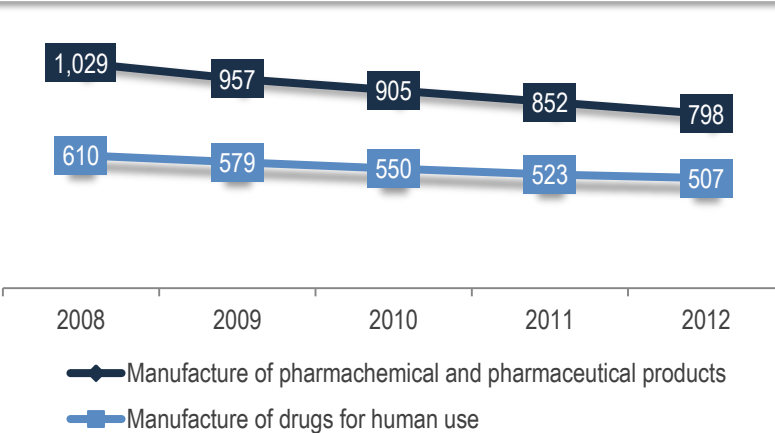
Employed Persons



Annual Salary & Other Remuneration per Employee, BRL



Number of Enterprises (year-end)



Comments

- The number of companies operating in the pharmaceutical and pharmaceutical sector has been decreasing over the last decade in line with the ongoing process of consolidation, driven by the search of economies of scale and increased pressures for lower end-prices. The impact of this structural transformation on the number of employees and the salary levels was not significant.
- At the end of 2012, in the segment of drugs for human use there were a total of 507 active companies that were highly concentrated in five states: Sao Paulo (36%), Rio de Janeiro (14%), Minas Gerais (11%), Goias (7%) and Parana (5%).

Government Policy

Main regulatory bodies

The regulation of the pharmaceutical sector is divided among federal, state and municipal authorities. On federal level, the health and pharmaceutical sectors are regulated by the Ministry of Health through the Brazilian Health Surveillance Agency (ANVISA), which is responsible for registration of medical drugs for human use and their active substances, licensing of drug manufacturers and other companies inside the pharmaceutical supply chain, establishing regulations applicable to clinical trials and drug pricing. The agency also analyses patent requests in cooperation with the National Institute of Industrial Property, and inspects factories, monitors the quality of drugs, regulates drug promotion and marketing, in partnership with state and municipal bodies.

Development of Brazilian Healthcare Industrial Complex

In an effort to counteract the growing dependence on imports, in 2004, the Federal Government partnered with the National Development Bank (BNDES) to create the Profarma credit line programme (Support Programme for the Development of a Healthcare Industrial Complex), aiming to promote the technology transfer and the development of the production capacity of local pharmaceutical industry. In 2013, BNDES launched the third phase of Profarma, with the goal to invest BRL 5bn by 2017 in projects for production of biotechnology drugs, and R&D and innovation activities in the healthcare supply chain. In the same year, the Inova Saude (Innovate Health) programme was created, a grants and loan scheme with a budget of BRL 600mn, for the development and production of new medical equipment and technologies.

Main programmes for increasing access to healthcare

In 2004, the Brazilian Government launched the Farmacia Popular do Brasil (Brazil Popular Pharmacy) programme to expand access to drugs among the low-income population. In 2014, some 113 drugs, the majority of them generic, for the treatment of asthma, rhinitis, high cholesterol, Parkinson's disease, osteoporosis and glaucoma, were subsidised by the Government, with an up to 90% price discount. The budget of the programme stood at BRL 2.6bn in 2014.

Since 2011, with the creation of the Saude Nao Tem Preço (Health Has No Price) programme, the population has free access to additional 14 drugs for hypertension, diabetes and asthma through an accredited network of over 30,000 pharmacies across Brazil. Since its launch, over 19.4 million patients have benefited from the programme.

Prices

The Brazilian Government exercises centralised control over drug prices. According to law 10.742/2003, the Drug Market Regulation Chamber (CMED), an interministerial body, defines price limits for over 20,000 pharmaceutical presentations and the criteria for their adjustment. The regulator sets a maximum ex-factory price (i.e. wholesale acquisition cost) and a maximum consumer price. The latter is formed through a build-up method formula by adding a margin to the maximum ex-factory price of between 33% and 41.4%, according to the different types of drugs.

Mandatory price adjustment

On 31 March each year, CMED defines an average adjustment of the ex-factory prices of over 9,000 drugs based on several criteria, including inflation rate, input prices, productivity rate and the level of competition in the sector. In 2014, the regulator approved a 3.35% average price increase, ranging from 1.02% to 5.68%, according to the different types of drugs. The average price adjustment remained below the Extended National Consumer Price Index (IPCA) for a fifth consecutive year. The OTC drugs are not subject to a mandatory price adjustment.

Tax exemption

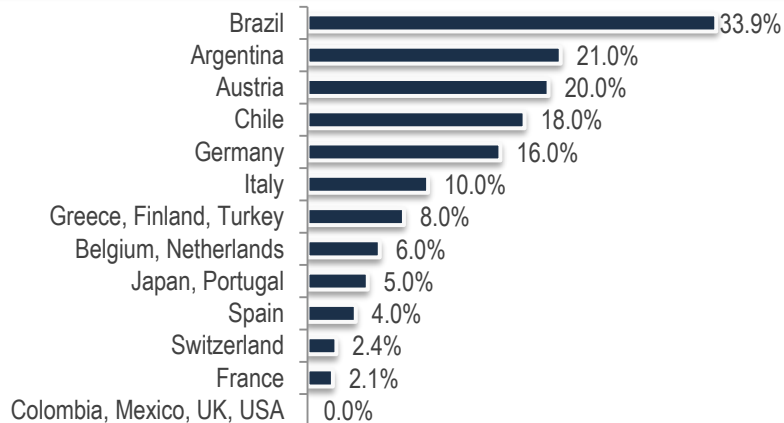
The pharmaceutical sector is impacted by a complicated and relatively high tax system. In an effort to broaden the access to healthcare, in 2001, the Government introduced a tax exemption system for certain types of drugs, based on their active ingredients and the type of disease treated. At the end of 2014, the positive list, which comprises drugs exempted from the PIS/Pasep and Cofins federal taxes, covered nearly 75.4% of the drug market in value terms.

Tax reduction

The State of Parana was the first Brazilian state to adopt a tax reform to ease the burden on the pharmaceutical sector. In 2009, the State Government cut the ICMS state value-added tax to 12% from 18%. The measure brought down the average sale price of drugs by 9.08% and increased by 115% the revenues from the tax, compared to 2008. In June 2014, the State of Sao Paulo followed suit and reduced the ICMS tax to 7% from 18% for eight medical substances used in the preparation of over 500 drugs. An average 10% drop in sale prices is expected from the measure.

Prices (cont'd)

Tax Burden on Drugs in Selected Countries, 2012



Real Adjustment of Average Drug Price, 2009-2014

	2009	2010	2011	2012	2013	2014
Extended National Consumer Price Index (IPCA)	5.90%	4.83%	6.01%	5.85%	6.31%	5.68%
Nominal adjustment of average drug price (ex-factory)	5.90%	4.64%	4.78%	2.80%	4.51%	3.35%
Real adjustment of average drug price (ex-factory)	0.00%	-0.19%	-1.23%	-3.05%	-1.80%	-2.33%

Highlights

- The tax rates on drugs in Brazil are among the highest in the world. According to SINDUSFARMA, taxes accounted for 33.9% of the final retail price of drugs in 2012, compared to a global average of 6.3%. The tax rate on drugs exceeds that of several non-essential products, including jewellery (20.2%) and books (15.5%), and that of drugs for veterinary use (13.1%).
- The main federal and state taxes imposed on drugs are: ICMS (state tax on the circulation of goods and services), which varies between 12% and 19%, II (Import Duty), PIS/Pasep and Cofins (federal social contributions on gross income).
- The excessive tax burden and, therefore, the higher end price of drugs, have a significant social impact. According to IBGE (Brazilian Institute of Geography and Statistics), some 55% of the Brazilian population cannot afford to buy the medicines they need.
- Since 2010, the imposition of a negative real adjustment of drug prices has been a common practice by the Government in efforts to partially reduce the tax burden on drugs of the population. However, this measure has significantly distorted the operating and investing activities of the domestic manufacturers and suppliers.

SWOT Analysis

Strengths

- The Brazilian drug market is the sixth largest in the world and will further expand at double-digit rates, driven by favourable demographic and socio-economic trends, and increasing health expenditure of the both public and private sectors.
- The existential character of the drugs results in a low price sensitivity and small bargaining power of consumers.
- Active governmental policies to promote the technological advancement of the domestic healthcare industrial complex (Profarma, Inova Saude) and the broader access to health services and drugs (Farmacia Popular, Saude Nao Tem Preco).

Weaknesses

- The domestic manufacturers are heavily dependent on the imports of pharmaceutical inputs, due to local underdeveloped and technologically obsolete pharmaceutical industry. They are influenced by high bargaining power of suppliers and significant currency fluctuations.
- Due to historically low levels of investment in R&D, the domestic industry continues to lose competitiveness in the field of innovative drugs. Therefore, the internal demand is satisfied mainly by imports, which results in chronic trade deficits.
- High levels of governmental intervention through price control, lengthy regulatory procedures and high tax burden.

Opportunities

- The generic and similar drugs will benefit the most from the increasing access of the low-income population to medical treatment, and Government's initiatives to boost the domestic production of medicines and, hence, lower the end prices.
- High opportunities still exist for horizontal integration as well as for backwards integration with pharmaceutical operations. The outlook for generic and OTC drugs producers remains positive.
- Highly fragmented retail market with a potential for further consolidation, driven by buoyant and underserved demand for drugs outside the Southeast region and foreign companies wishing to enter the sector.

Threats

- The increasing consolidation and competition in the sector may lead to a price war and, hence, further erode the profit margins.
- More stringent regulatory requirements for registration of new drugs, combined with additional price control measures and possible reform in the current patent protection rules.
- Potential deterioration of some economic indicators (GDP, public spending, disposable income, exchange rate) and further rise of the share of the falsified and smuggled products (estimated at some 30% of the market).
- Additional technology barriers to prevent the entry of local firms in high-end segments, dominated by foreign companies.

II. Prescription Drug Segment

Prescription Drug Segment Highlights

The prescription drugs was the most affected segment by the rapidly expanding demand for generics in Brazil. However, the segment remains the largest product group in the country, with sales value of BRL 28.7bn and a market share of 49.5% in 2013. The prescription drugs are comprised by patented (reference) and similar (equivalent) products. The latter are copies of drugs with expired patents that differ in size, form of product, expiry date, packaging, labelling, excipients and vehicles, and are identified by a brand name.

Competitive advantage

The key competitive advantages of the patented and the similar drugs are their high levels of quality, safety and efficiency, combined with their trusted and reputable brand. As they are the most innovative and sophisticated products in the market, they deliver novel solutions for the treatment of complex, autoimmune and infectious diseases. The main driving forces of the segment's growth are the improved access of the Brazilian population to health services and medical treatment, the shifts in the demographic and disease profiles, along with the higher penetration of private health plans, due to the growing number of companies with collective health plans.

Forecast

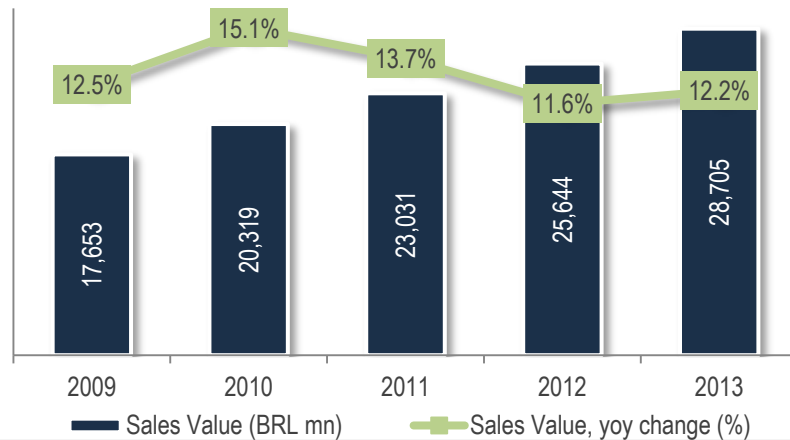
The sales of prescription drugs are expected to continue to grow by 2018, albeit at single-digit rates, according to BMI. The demand for high-end patented pharmaceuticals will be a function of the rising disposable income of the middle class, patients' preferences for branded drugs due to fear of low-quality and counterfeit products, as well as the Government's efforts to reduce self-medication and improve the quality of services provided by the public health system. A crucial impact on the segment will have the successful implementation of the Government's policy to boost the R&D and technological capabilities of domestic industry in order to produce generic versions of complex patented drugs.

Challenges

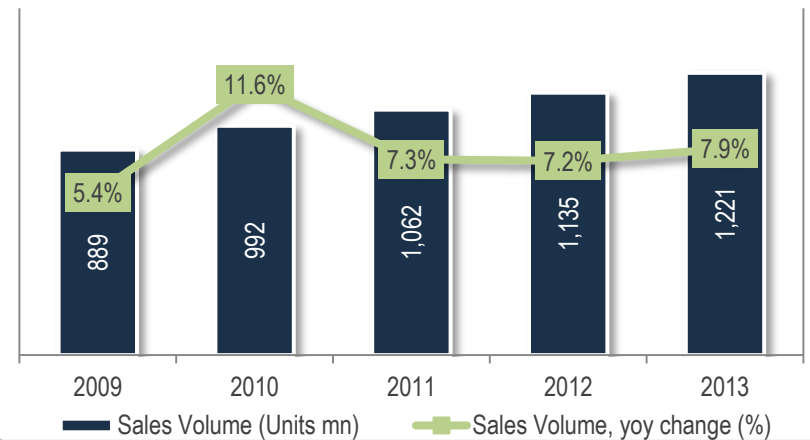
The main factor for the decreasing market share of the prescription drugs is their relatively high price in comparison to other product groups in Brazil, with the generics being their main competitor. To counteract the competitive pressure, the pharmaceutical companies offer significant price discounts that erode their profit margins. A significant challenge for the segment is the expiration of patents for several essential drugs over the next years. Another serious threat is the potential reform in Brazil's Patent Law from 1996, mulled by the Government, which would reduce the patent protection to 10 from 20 years, and forbid the patent protection for second and further medical uses of a certain drug.

Prescription Drug Sales

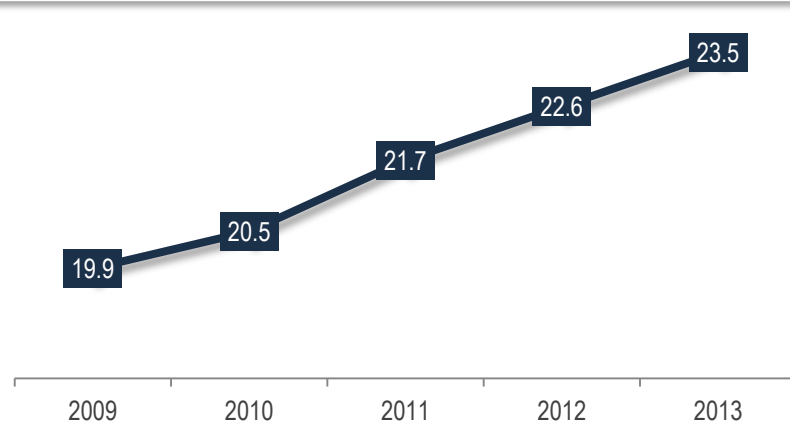
Prescription Drug Sales Value



Prescription Drug Sales Volume



Average Sale Price (BRL/Unit)



Comment

- The sales of prescription drugs expanded at a CAGR of 12.9% in terms of value and of 8.3% in terms of units for the period 2009-2013. Although the growth of the segment hovered below the market average, the prescription drugs retained a dominant 49.5% share of the pharmaceutical market in value terms in 2013 (down from 58.5% in 2009).
- The prescription drugs are traditionally positioned in the high-end price range, with an average sale price of BRL 23.5 per unit in 2013. However, for the period 2009-2013, the segment recorded a price increase of 18.4%, below the average in the drug market, due to the centralised price formation.

III. Over-the-Counter Drug Segment

Over-the-Counter Drug Segment Highlights

The OTC drugs have consolidated their positions as the second largest product group in the pharmaceutical market in Brazil. The ongoing social ascension of the population, mainly from the classes C, D and E, due to the increase of the formal employment and the rise in consumer purchasing power, resulted in greater access to private health plans and medical services, which boosted the demand for drugs, and for OTC drugs in particular. Since 2003, the sales of OTC drugs have followed the double-digit growth rates of the overall pharmaceutical market and reached BRL 15.6bn in 2013.

Competitive advantage

The OTC drugs were less affected by the remarkable growth in the demand for generics in Brazil, and their market share remained stable over the period 2009-2013. Their key advantages are the lower price in comparison with the patented drugs and the greater accessibility for the population, as they do not require a medical prescription. The changing nutritional habits and disease profile combined with increasing consumer health awareness, have made the OTC drugs the preferred choice for treatment of minor ailments and diagnosed chronic diseases, as well as for prevention of premature heart diseases, stroke and diabetes, among others.

Regulation

In 2003, ANVISA issued the Resolution 138 that establishes which drugs can be considered OTC, based on their therapeutic index, toxicity and applicable international laws. However, the current legislation does not provide specific regulatory framework for the registration of OTC drugs and, therefore, they require the same documentation, clinical tests and Certification of Good Manufacturing Practices as their prescribed counterparts. The registration process takes on average one year and four months. The Brazilian OTC Industry Association (ABIMIP) strongly advocates the adoption of a specific legislation for the OTC drugs, following the example of Argentina, Australia, Canada, Chile, the USA and the U.K.

Government policy

The Brazilian Government has taken several steps to liberalise the sales of OTC drugs in order to improve the access to health services and optimise public health expenditure. However, the governmental policy remains controversial. In 2012, Resolution RDC 41 of ANVISA amended the ban on the sale of non-prescription drugs on pharmacies shelves, imposed in 2009. Under the new regulation, the OTC drugs may be placed in the self-service areas in pharmacies, but must be separated from other products. In May 2012, the Brazilian Senate passed a bill that would allow patients direct access to OTC drugs in general stores and supermarkets, which was subsequently vetoed by Brazil's President Dilma Rousseff.

Over-the-Counter Drug Segment Highlights (cont'd)

Retail

The current legislation allows the sale of OTC drugs only in registered pharmacies, drugstores and pharmacies in supermarkets. In September 2014, the Brazilian pharmacy regulator Federal Council of Pharmacy passed the Resolution 586/13 that permits the pharmacists to prescribe drugs (including prescription ones), magisterial preparations and herbal medicines, conditioned on the compliance with strict requirements. Unlike the prescription drugs, which can be promoted only to medical professionals, OTC drugs can be advertised, provided the promotional activity complies with rigid rules, established by ANVISA (Resolution RDC 96/08) and CONAR (National Council of Self-Regulation in Advertising), including displaying trade name, registration number, active ingredients and scientific evidenced statements. The law bans the participation of celebrities and children younger than ten years in product advertisements. Price comparisons at consumers can be done only between interchangeable drugs (generic and patented).

Forecast

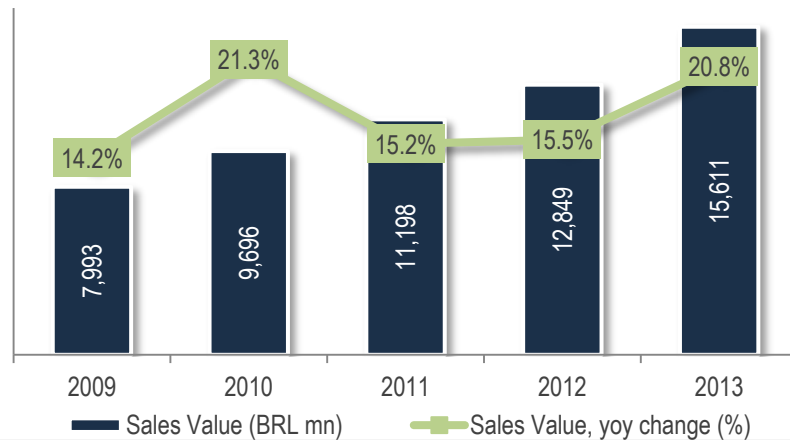
The OTC drug segment will continue to grow, albeit at a decelerating pace. According to Marketline, the sales of OTC drugs will expand at a CAGR of 7.9% over the period 2013-2018, reaching USD 10.8bn. BMI gives a more conservative estimate of the OTC market of USD 9.8bn by 2018. The main driving force will be the continued expansion of the modern drugstore chains, mainly in the North and Northeast regions of Brazil, which will lead to a greater access of population to health services. Another positive effect should come from the widespread practice by domestic and multinational pharmaceutical companies to use the OTC drugs as a brand-building instrument, given the restrictions for advertisement and promotion of their prescription-only counterparts. On the other hand, the segment can be negatively impacted by a shift in the Government's policy towards additional restrictions on the sale of OTC drugs.

Challenges

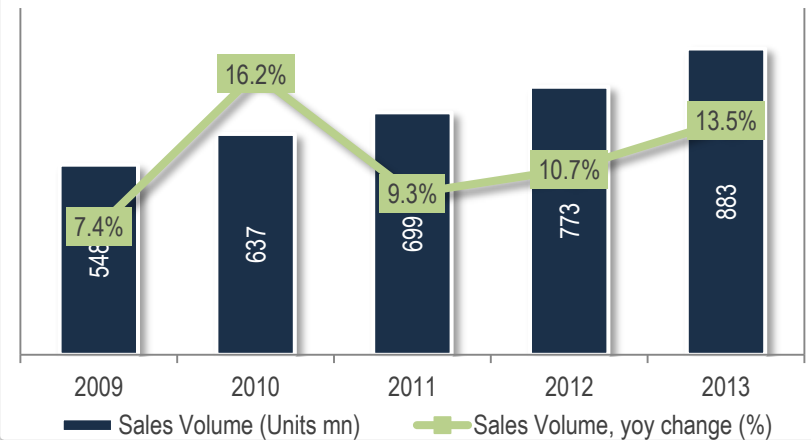
One of the main challenges the segment faces is the rational use of OTC drugs by the population, given the widespread culture of self-medication. Despite being safe and cost-efficient, the misuse of OTC drugs can easily lead to overdose and intoxication. In several cases, its frequent use can alleviate the symptoms but hinder the detection of serious diseases. In view of that, ANVISA partnered with the industry associations to implement initiatives to educate consumers on responsible use of drugs. These include increased requirements for healthcare services at the drugstores and more active participation of pharmacists in the drug use process. Another main challenge for the segment is the ongoing debate for the liberalisation of trade with OTC drugs in general stores, which should increase their availability in distant and underserved areas. To counteract the negative effects of this liberalisation, Sergio Barreto, President of ABRAFARMA, proposed the adoption of more rigid regulations for the safety of drugs distributed through the general commercial network.

Over-the-Counter Drug Sales

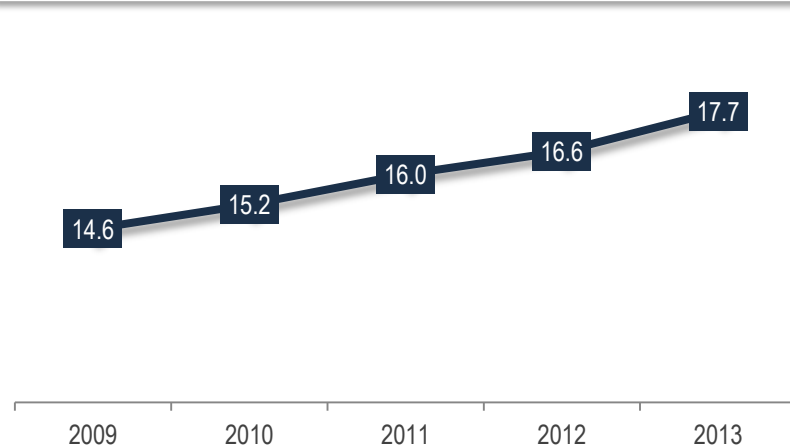
OTC Drug Sales Value



OTC Drug Sales Volume



Average Sale Price (BRL/Unit)

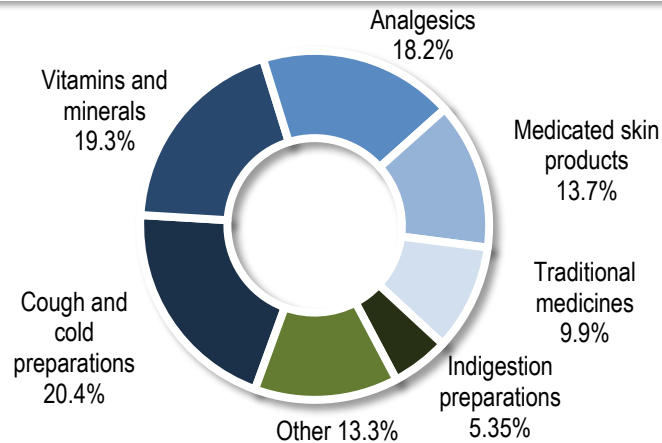


Comment

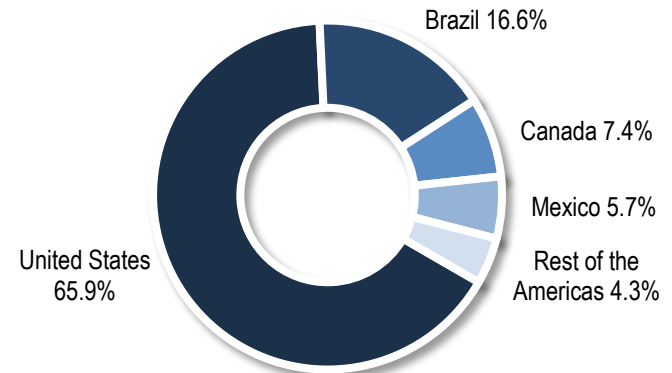
- The sales of OTC drugs followed the pace of the overall pharmaceutical market over 2009-2013, expanding at a CAGR of 18.2% in terms of value and at 12.7% in terms of units.
- As a result, the segment's market share remained stable at approximately 26% of the total sales value and 30% of the total units sold in the country.
- The OTC drugs continue to be approximately 25% cheaper than their prescription counterparts, although the price gap continues to narrow due to the faster growth in the price of the former. In 2013, the average sale price of the OTC drugs stood at BRL 17.7, up 21% from 2009.

Over-the-Counter Drug Sales (cont'd)

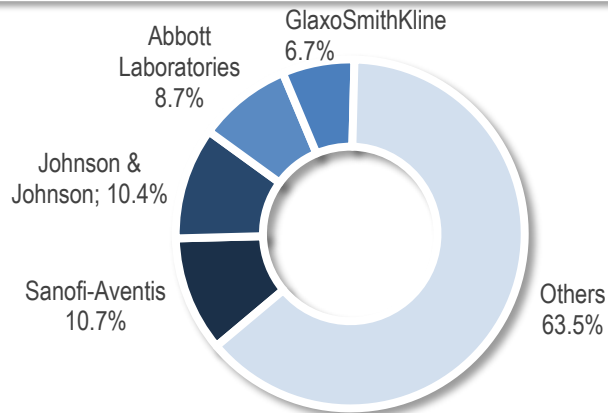
Segment-wise Sales Value, 2013



Geographic Segmentation of the Americas OTC market, 2013



Major Players by Market Share in Value, 2013



Comments

- The sales of each one of the largest product groups of the OTC drug market, namely, cough and cold preparations, vitamins and minerals, analgesics and medicated skin products, exceeded USD 1bn in 2013. Together, they accounted for 71.5% of the market in value terms.
- Brazil is the second largest OTC market in the Americas after the United States, with 16.6% of the sales value of the region.
- The OTC drugs market is highly fragmented, with the four largest players accounting for only 36.5% of the total sales value in 2013. However, the segment is witnessing a gradual trend towards consolidation, led by multinational companies.

IV. Generic Drug Segment

Generic Drug Segment Highlights

Since 1999, when the generics were introduced on the Brazilian pharmaceutical market as a type of drug by Law 9.787, their market share has been aggressively growing due to their competitive price and the increasing number of therapeutic classes they are used in. In 2013, the sales of generic drugs reached BRL 13.7bn and accounted for 23.6% of local pharmaceutical market. At present, about 90% of the prescription drugs in Brazil have a generic equivalent.

Competitive advantage

The competitive price of the generics is the key driver for their aggressive expansion on the market. The current legislation implies that generic drugs must be at least 35% cheaper than their branded equivalents, given their lower level of R&D costs. Due to the additional discounts offered by the market players, their price is even lower. According to a survey by Procon-SP in February 2014, generics are on average 56.5% less expensive than their branded counterparts. The Brazilian Generic Pharmaceutical Association (Pro Genéricos) estimates that the population has already saved more than BRL 46bn on the purchase of drugs since the introduction of the generics in Brazil.

Regulation

ANVISA is the main regulatory body that oversees the registration, production and sale of generic drugs in Brazil. The Law 9.787/1999 establishes which drugs are considered generic, while the Resolution 391/1999, republished as Resolution RDC 16/2007, defines the requirements and technical criteria for the registration of generic drugs, including the procedures concerning their interchangeability with the prescription drugs. A pre-requisite for the registration of a generic drug is the Certification of Good Manufacturing Practices, which is obtained by the pharmaceutical companies after an inspection of their manufacturing plants.

Government policy

The generic drugs are a key element of the health policy of Brazil's Government to improve the access of the population to healthcare services. The generics are seen as a viable alternative to reduce the overall public health expenditure and attend the needs for correct medical treatment of the low-income population, especially in the case of chronic diseases. Another major advantage is the interchangeability of the generics with prescription drugs, as they offer the same quality, efficacy and safety as the branded products, but at a lower price. Approximately 85% of the drugs included in the Farmacia Popular programme are generic.

Generic Drug Segment Highlights (cont'd)

Consumer confidence

The Government and local industry associations have completed several initiatives to publicise the effectiveness and reliability of the generics among health professionals, which resulted into increased prescription rate of this type of drugs. In April 2014, a survey by Instituto Close Up and Pro Genericos showed that the generics accounted for 65% of the number of medical prescriptions in Brazil. The study was based on 65 million medical prescriptions issued between February 2013 and February 2014. In March 2014, another study performed by DataFolha and Interfarma, revealed high consumer confidence with generic drugs, as 58% of the respondents considered that they are as reliable as the patented ones. Approximately 79% of the population have already purchased a generic drug.

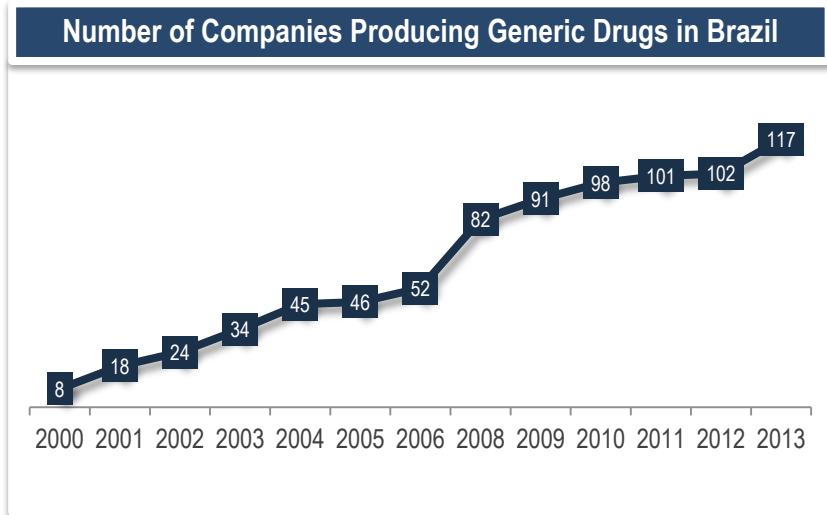
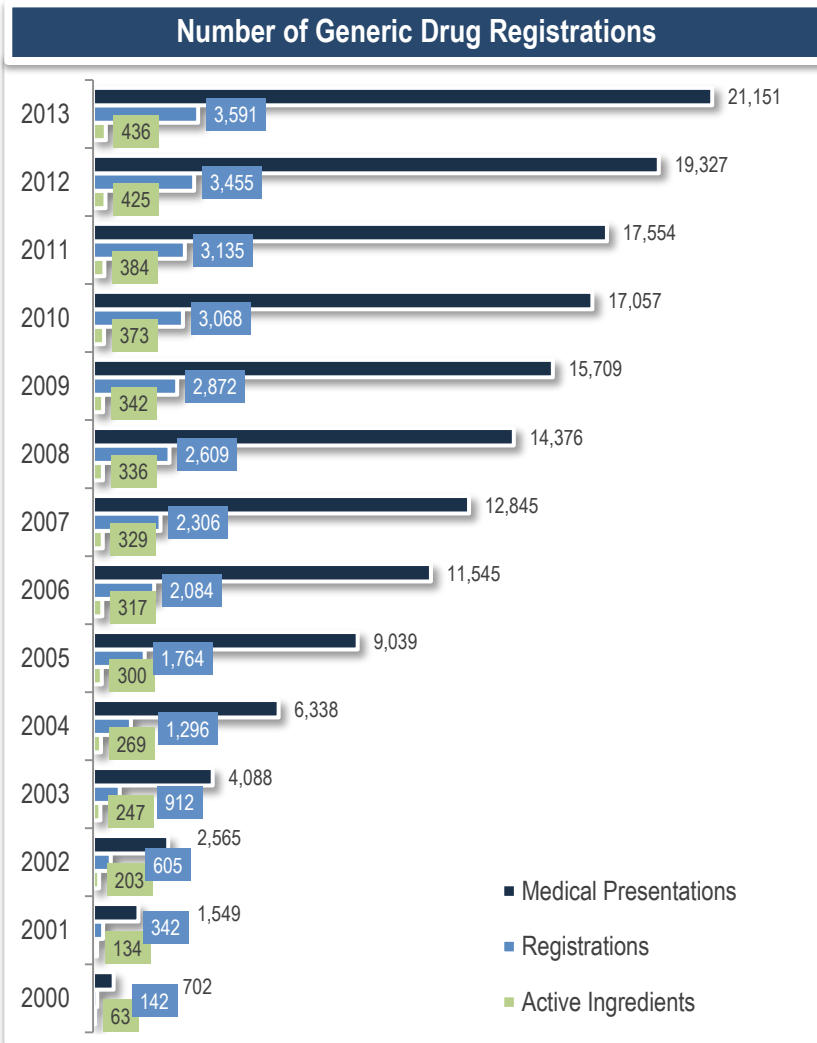
Forecast

The generics will continue to be the driving force of the pharmaceutical market in Brazil, given their competitive price and the expiration of patents of several essential drugs over the next few year. According to IMS Health, drugs with annual sales of over BRL 1bn will lose patents in Brazil by 2016, followed by BRL 1.8bn worth of drugs with a date of patent expiry between 2016 and 2020. Pro Genericos expects that the generic drugs will account for 30% of the pharmaceutical market in 2015, and their market share should reach 45% by 2020. The high potential of the segment is also confirmed by the low penetration level of generics in Brazil in comparison with mature markets, such as Germany, the USA and the U.K. (where it exceeds 60% of total drug sales).

Challenges

Apart from the overall high tax burden, the generic drugs face several segment-specific challenges. Prior to registration, all generics are submitted to rigid and lengthy quality tests, including bioequivalence and pharmaceutical equivalence tests, that take, on average, two years. Pro Genericos advocates that additional efforts should be made to promote the prescription of both brand-name and generic drugs among health professionals in order to provide an economically feasible medical treatment to the vulnerable population. In addition, the inclusion of requirements for bioequivalence and pharmaceutical equivalence tests in the evaluation criteria of public bids and tenders will also have a positive impact on the sales of the segment

Generic Drug Registration



Comments

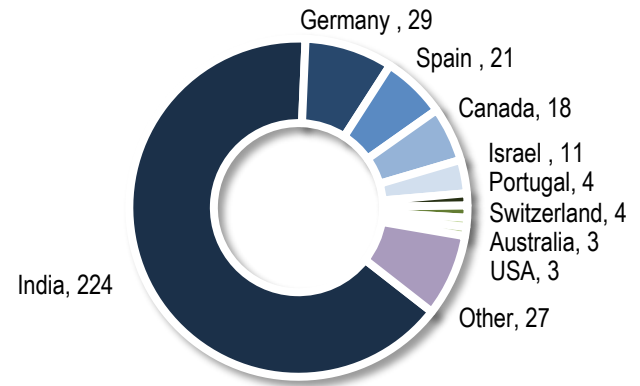
- For the period 1999-2014, the generic drug segment has attracted investments of over USD 1.5bn from both domestic and foreign companies. The funds were used for bioequivalence tests, adoption of Good Manufacturing Practices, R&D and expansion of the production capacity.
- The number of producers of generic drugs in the country grew 15 times to 117 in 2013 from barely eight in 2000. This led to a significant increase in the product offering, having 3,591 generic drugs sold in 21,151 medical presentations in 2013. About 95% of the diseases classified by the Brazilian Ministry of Health have generic options available.

Generic Drug Registration (cont'd)

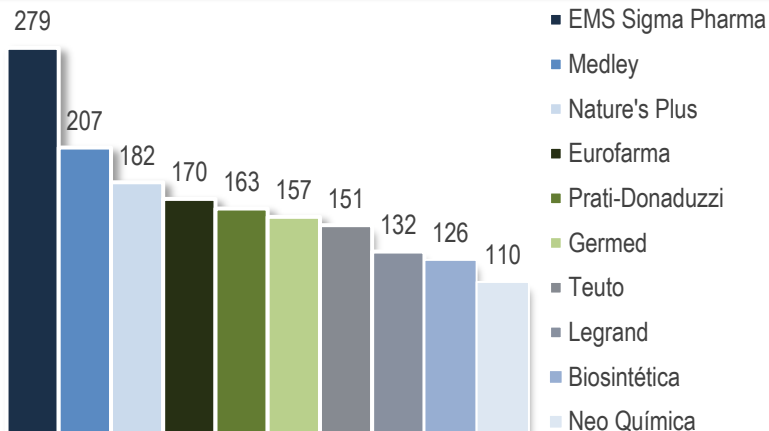
Generic Drug Registrations by Nationality (%), 2013



Number of Foreign Registrations by Country of Origin



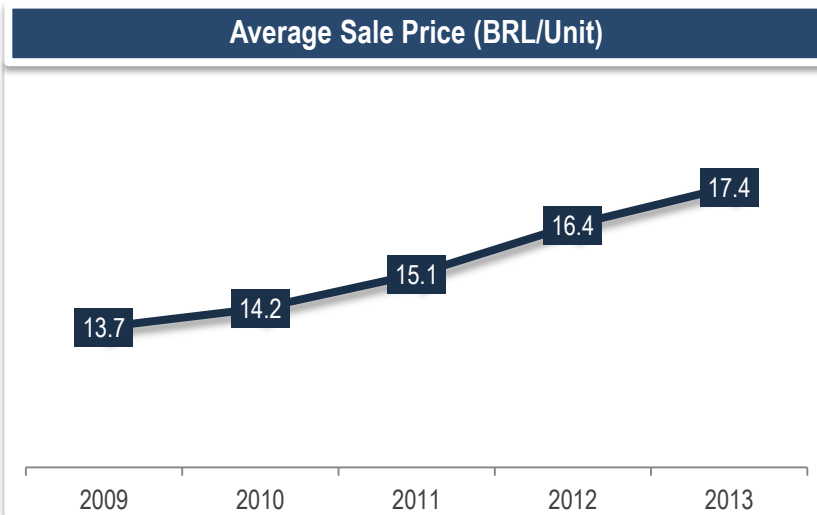
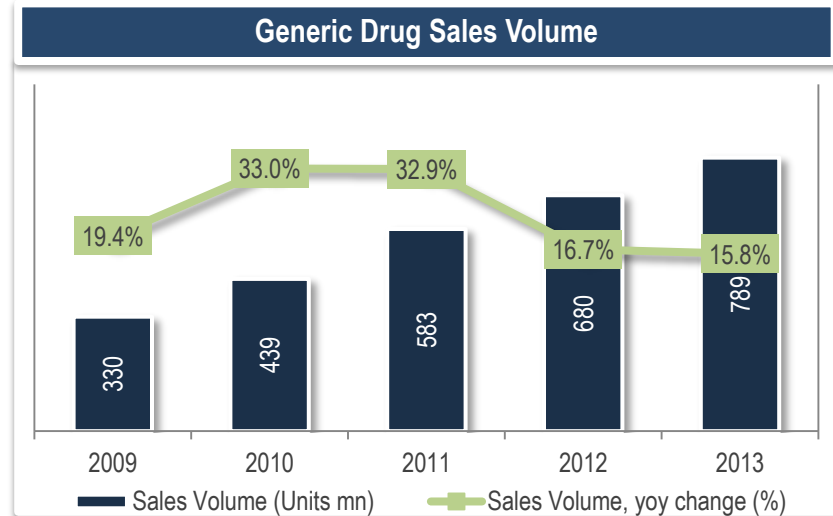
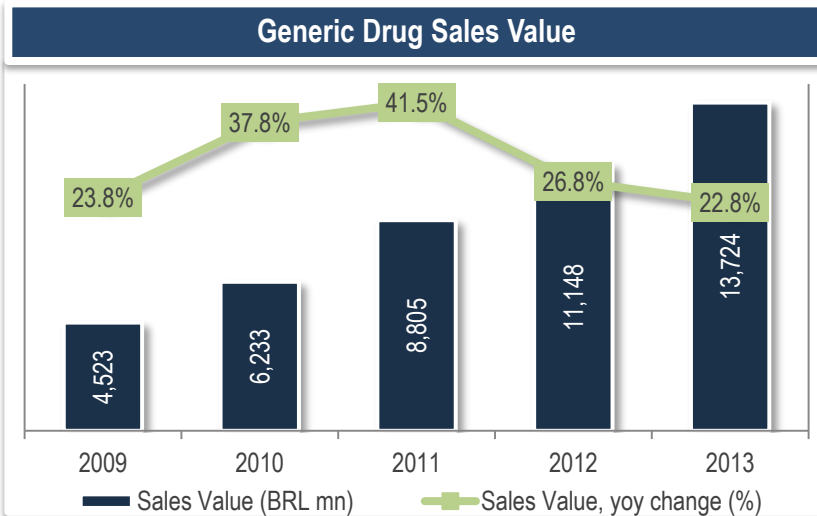
Number of Generic Drug Registrations by Company, 2013



Comments

- In 2013, some 90.4% of the generic drugs sold in Brazil were produced locally. The main foreign suppliers of generics are India (6.2%), Germany (0.8%), Spain (0.6%) and Canada (0.5%).
- The rapidly growing domestic demand for generic drugs has attracted several multinational pharmaceutical companies that entered the market through greenfield investments and acquisitions of local peers. In 2009, France's Sanofi-Aventis acquired Medley, the largest Brazilian generics manufacturer, for an enterprise value of BRL 1.5bn.

Generic Drug Sales



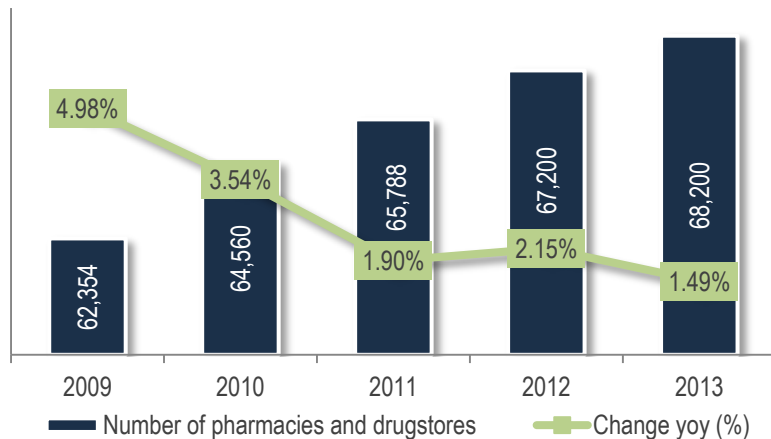
Comment

- The generics proved to be the most dynamic product segment in Brazil, growing twice as fast as the market average at a CAGR of 32%. As a result, the segment saw a rapid increase in its market share to 23.6% in 2013, up from 15% in 2009.
- Over the last five years, the number of generic drugs sold more than doubled, growing at a CAGR of 24.3%, and reached a market share of 27.3% in 2013.
- The generics remain the most affordable product segment in Brazil, with average sale price of BRL 17.4 in 2013. However, the segment recorded the highest price increase of 27% for the period 2009-2013.

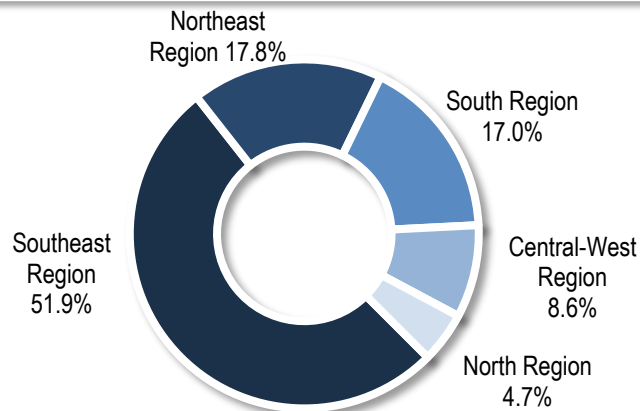
V. Distribution Channels

Distribution Channels

Pharmacies and Drugstores



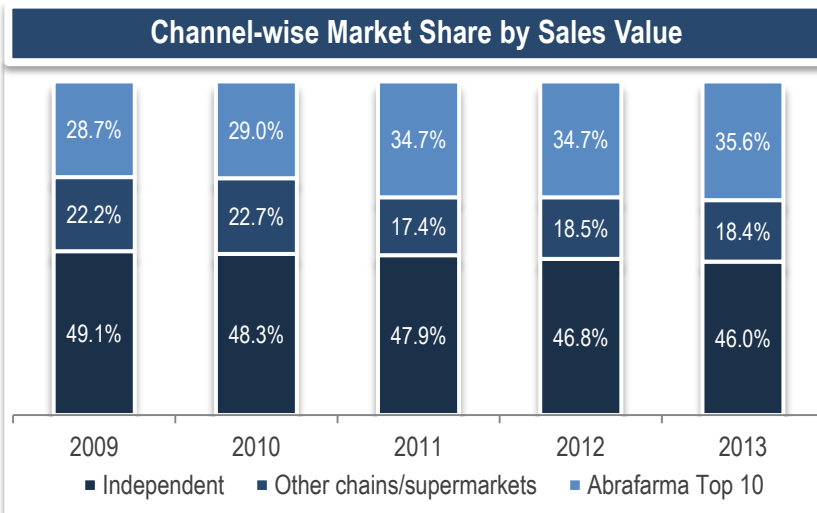
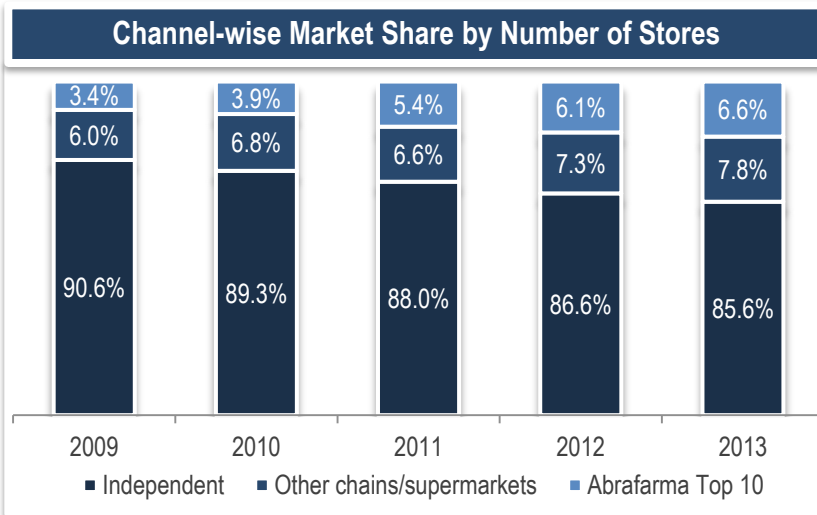
Region-wise Drug Sales in Value, 2013



Highlights

- The pharmacies and the drugstores are the main distribution channels for pharmaceutical products in Brazil. Over the last decade, the retail market has witnessed a large scale restructuring process that resulted into increased access of the population to health services. Since 2000, the number of pharmacies and drugstores has more than doubled, reaching a total of 68,200 stores in 2013.
- Based on sales value, the drug retail market can be divided into two sub-markets, the Southeast region and the other regions in Brazil. The first sub-market, which includes the most developed states in the country, accounts for over half of the total drug sales. The region features a high level of competition and market saturation, and a dominant presence of large retail drug chains.
- The large retail drug chains have a limited presence in the other regions of Brazil, where independent retailers and regional players dominate. This sub-market is more attractive for new entrants, due to its lower level of competition and higher profit margins in comparison to the Southeast region. In addition, the large number of underserved population in the other regions of Brazil offers industry players a potential for higher growth. In 2013, the drug sales in the Southeast region increased by 15.9% y/y, compared to a 19% growth in the other regions of the country.

Distribution Channels (cont'd)



Highlights

- The ongoing processes of formalisation and consolidation are other major trends transforming the drug retail market. The modernisation of the tax system and the higher regulatory control resulted in a gradual decrease of the degree of informality and tax evasion. As a sector where the scope of competition depends on the economies of scale, the drug retail market has witnessed a consolidation movement over the last five years. This process was marked by mergers of regional chains, increasing penetration of large drug chains, and the entry of multinational companies through acquisitions and greenfield investments. However, the market remains highly fragmented and is still dominated by independent family-owned retailers. In 2013, the five largest retailers, members of the Brazilian Association of Pharmacy and Drugstore Chains (ABRAFARMA), accounted for barely 5.2% of the number of stores and for 30% of total drug sales in Brazil.
- The drug retail chains turn out to be the biggest winners from the ongoing consolidation process, as they continue to gain market share against the independent retailers. The introduction of new store formats and value-added products, the offer of bigger price discounts, loyalty programmes and personalized health services, are the main factors for their strong performance.

V. Main Players

Top M&A Deals

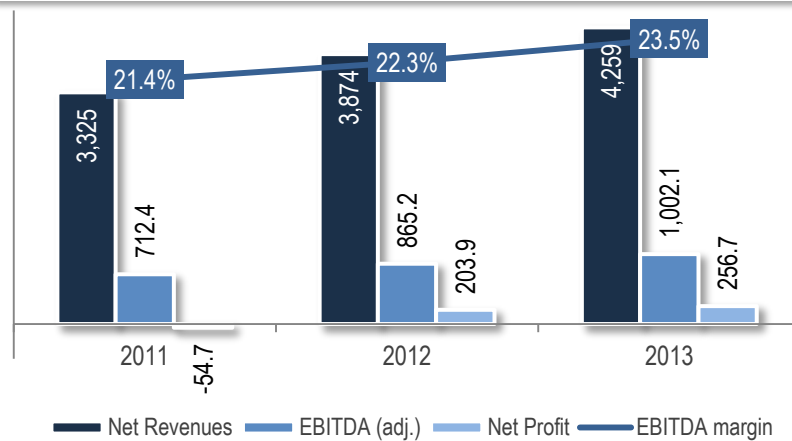
Top 15 M&A Deals in the Pharmaceutical Sector in Brazil (2012-2014)

Date	Target Company	Deal Type	Buyer	Country of Buyer	Deal Value USD (mn)	Stake (%)
Feb-13	Drogaria Onofre Ltda	Acquisition	CVS Caremark Corp	United States	600.0	100.0
Sep-13	Imifarma Produtos Farmaceuticos e Cosmeticos SA	Acquisition	Ultrapar Participacoes SA	Brazil	402.7	100.0
Jan-12	Panpharma Participacoes SA	Acquisition	Celesio AG	Germany	369.0	49.9
Feb-12	Sant'ana SA Drogaria Farmacias	Acquisition	Brazil Pharma SA	Brazil	287.9	100.0
Oct-13	Celesio's operations in Brazil	Acquisition	McKesson Corp	United States	261.0	50.01
May-12	Multilab Industria e Comercio de Produtos Farmaceuticos Ltda	Acquisition	Takeda Pharmaceutical Company Ltd	Japan	246.1	100.0
Mar-13	Raia Drogasil SA	Open market purchase	Schroders plc	United Kingdom	189.9	5.04
Oct-14	Ouro Fino Saude Animal Participacoes SA	IPO	Undisclosed investors; General Atlantic LLC	United States	170.0	28.7
May-14	Novafarma Industria Farmaceutica Ltda	Acquisition	Fresenius SE & Co KGaA	Germany	139.0	100.0
Feb-12	Probiotica Laboratorios Ltda	Acquisition	Valeant Pharmaceuticals International Inc	Canada	86.3	100.0
Mar-14	Profarma Distribuidora de Produtos Farmaceuticos SA	Minority stake purchase	AmerisourceBergen Corp	United States	84.3	19.99
Oct-13	Natulab Laboratorio SA	Acquisition	Patria Investimentos Ltda	Brazil	58.2	n.a
Jan-13	Itamaraty Empreendimentos e Participacoes SA (Drogarias Tamoio)	Acquisition	Profarma Distribuidora de Produtos Farmaceuticos SA	Brazil	52.8	50.0
Jun-12	Laboratório Sanobiol Ltda	Acquisition	Cristalia Produtos Quimicos Farmaceuticos Ltda	Brazil	48.3	100.0
Oct-12	Moksha8 Pharmaceuticals Inc	Minority stake purchase	Undisclosed investors	n.a.	47.0	n.a

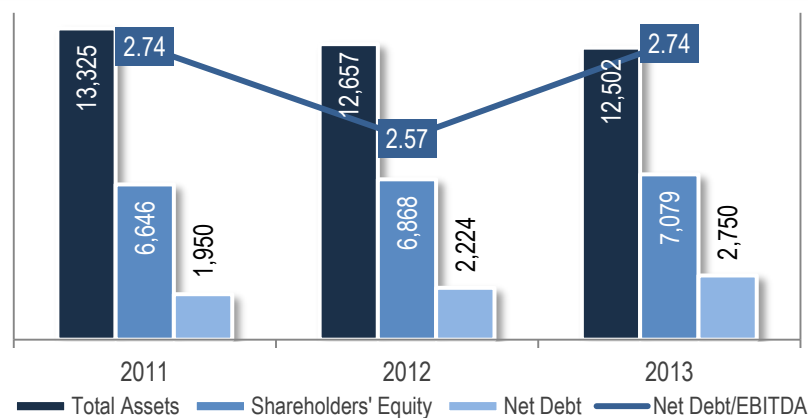
Source: DealWatch

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Income Statement (Consolidated, BRL mn)



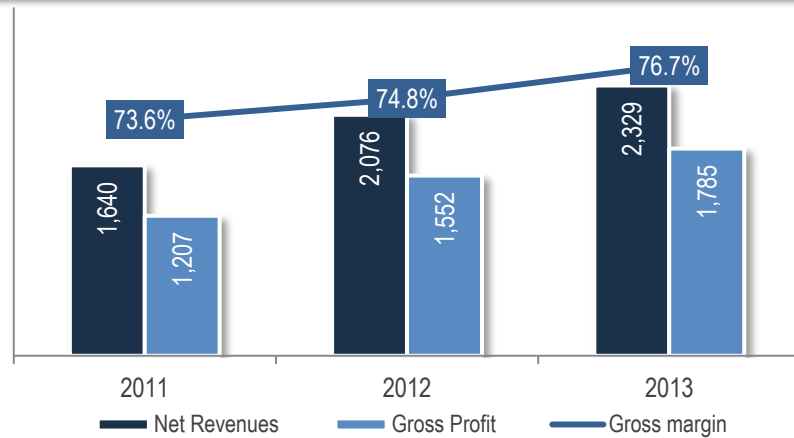
Balance Sheet (Consolidated, BRL mn)



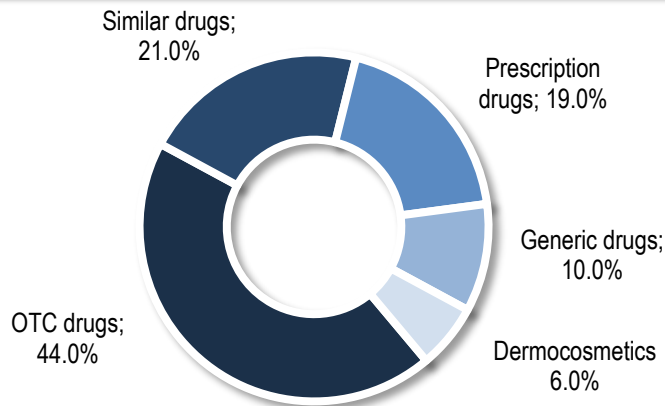
Highlights

- Hypermarcas is the largest Brazilian company of branded health and well-being products, with solid presence in the drug, health, beauty and personal care segments.
- Founded in 2001 by Brazilian entrepreneur Joao Alves de Queiroz Filho, the company rapidly build a robust portfolio of products and brands through inorganic growth, closing 23 acquisitions for the period 2007-2011. Since 2011, the firm has adopted a new strategy of sustainable profitable growth.
- Hypermarcas was floated on the BM&FBovespa Stock Exchange in an IPO worth BRL 612.4mn in April 2008. Its market capitalisation stood at BRL 10.5bn on 30 December 2014.
- The company operates ten industrial complexes and eight distribution centres in the States of Goias, Sao Paulo, Rio de Janeiro, Pernambuco and Minas Gerais, and has some 12,600 employees.
- Hypermarcas is organised in two business units: Pharma and Consumer. The Pharma division has leading positions in the OTC and similar drugs, and strong presence in the generic and prescription segments. Its main brands are Addera D3, Alivium, Benegrip, Biotonico Fontoura, Doril, Engov, Epocler, Histamin, Lisador, Polaramine, Predsim, Rinosoro, Torsilax and Neo Quimica.

Pharma Division Sales Value in 2013, BRL mn



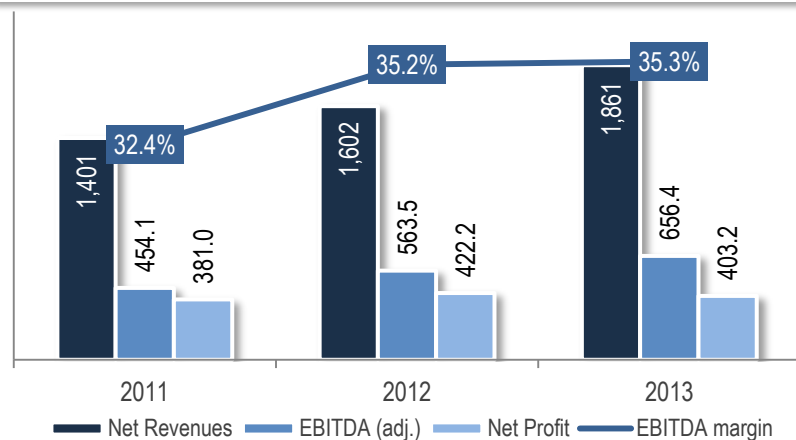
Pharma Division Segment-wise Sales in Value, 2013



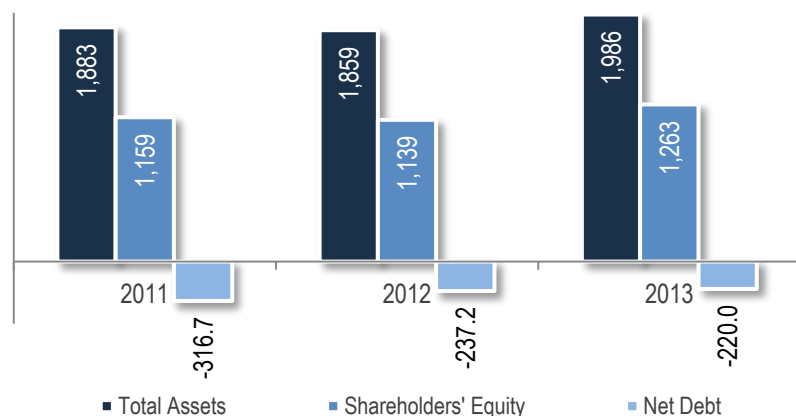
Highlights

- The Pharma division ranks third in the generic segment in Brazil, with a portfolio of 120 products under the Neo Quimica brand.
- The Consumer division offers consumer health, beauty and personal care products, including sweeteners, condoms, moisturizers, nail polish and diapers, under well-known brands such as Bozzano, Jontex, Monange, Olla, Paixao, Risque and Zero-Cal.
- Hypermarcas invests some 18-20% of its annual net revenues in marketing activities. In 2013, the company was the seventh biggest advertiser in Brazil.
- In 2013, the firm completed a structural transformation of its Consumer division by reducing the number of brands and manufacturing facilities. This process did not affect the financial performance of the business unit, which posted net sales of BRL 1.9bn in 2013, an increase of 7.4% y/y.
- The innovation activities are one of the main growth pillars of Hypermarcas. In 2013, the company obtained 49 new drug registrations and launched 21 new products, including 13 generics. Its current pipeline includes 291 drugs under development in addition to 299 drugs in registration stage.
- Hypermarcas also has 12 active projects for incremental innovation in the pharmaceutical sector, financed by the National Development Bank (BNDES).

Income Statement (Consolidated, BRL mn)



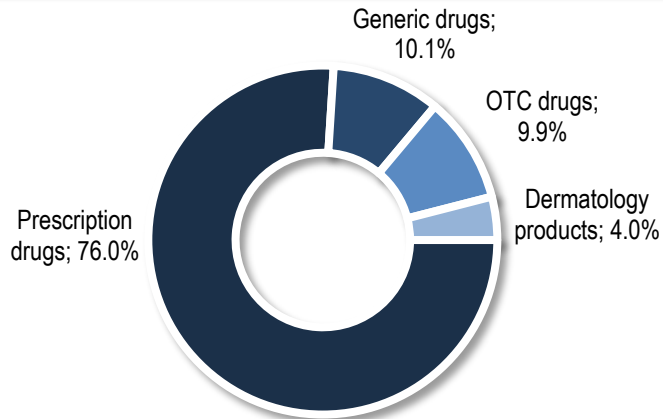
Balance Sheet (Consolidated, BRL mn)



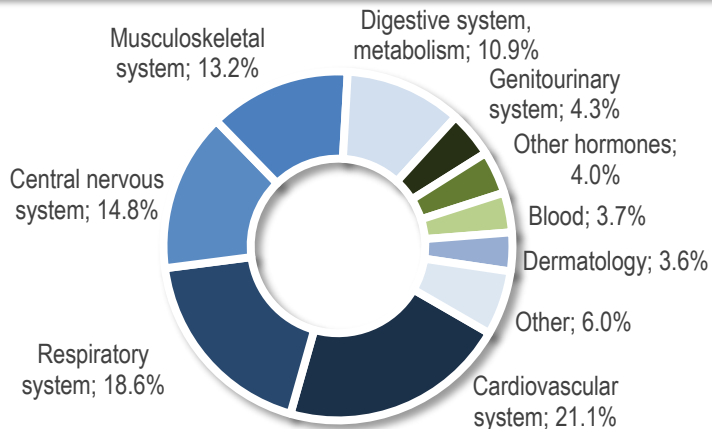
Highlights

- Ache is the largest drugs maker in Brazil in terms of sales value (pharmacy purchase price), with a 5.85% market share in 2013, according to IMS Health.
- Founded in 1966 as a privately-held company, Ache gained solid positions in the prescription drug segment through organic growth, acquisitions and licensing agreements. In 2005, Ache entered the generics market through the acquisition of local drugs maker Biosintetica. In 2010, the company further diversified its portfolio with the purchase of a 50% stake in local hormone-based drugs producer Melcon.
- The company serves 18 medical specialties and 132 therapeutic classes through a portfolio of prescription, generic and OTC drugs, marketed under 279 brands and 689 medical presentations, and a broad range of dermocosmetics, nutraceuticals and probiotics.
- Ache operates three manufacturing facilities in the States of Sao Paulo and Goias, with a production capacity of over 288 million units per year, and has some 3,800 employees, including a sales force of 2,100 people.
- Ache is controlled by three Brazilian families, the Siaulyis, the Depieri and the Baptista, each holding a 33.3% stake.

Segment-wise Sales in Value, 2013



Portfolio Breakdown by Therapeutic Class, 2013



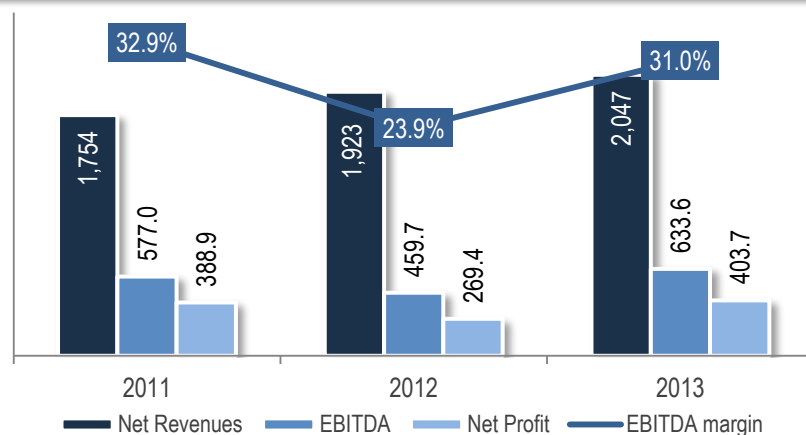
Highlights

- Ache invests around 3% of its annual sales revenue in R&D activities. In 2013, the company launched 32 new products, 12 of them prescription drugs, nine dermocosmetics, four OTC and seven generic drugs. A pipeline of 173 projects under development, of which 59 in registration stage, will be released on the market in the next few years.
- The company has a balanced product portfolio, with the five largest products representing 18% of its total net revenues in 2013, and the ten largest holding a share of 29%.
- In 2008, Ache started an internationalisation process through direct export and product licensing agreements. In 2013, the company exported 21 drugs and 32 pharmaceutical formulations to 12 countries in the Americas and Africa.
- In 2011, Ache entered the biotechnology segment with the creation of BioNovis, a joint venture with EMS, Hypermarcas and Uniao Quimica for the development and manufacture of biotechnological drugs in Brazil.
- In 2012, the company obtained investment grade ratings by Standard & Poor's (BBB-) and Fitch (BBB), both with stable outlook.

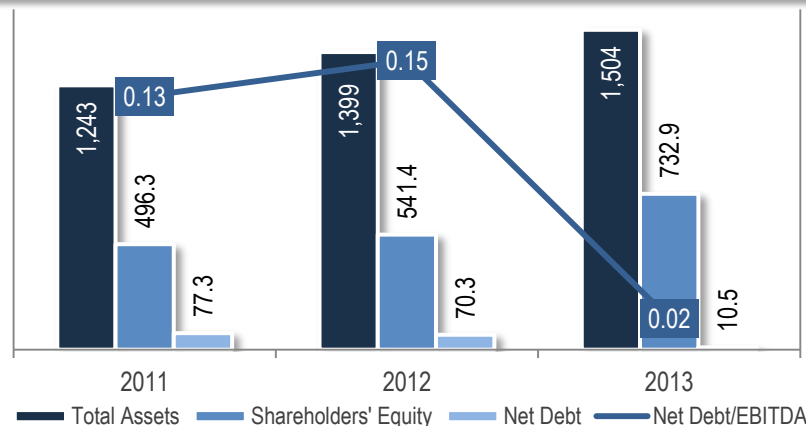
EMS S.A. (Grupo EMS Sigma Pharma)



Income Statement (Consolidated, BRL mn)



Balance Sheet (Consolidated, BRL mn)



Highlights

- EMS SA is the second largest drugs maker in Brazil in terms of sales value (pharmacy purchase price), with a 5.73% market share in 2013, according to IMS Health, being the leader in the generic segment.
- Founded as a privately-held company in 1964, EMS pioneered in the production of generic drugs in Brazil in 2000 and was the first Brazilian manufacturer that obtained a licence to export drugs to Europe in 2005.
- The company develops and manufactures prescription, similar, generic and OTC drugs, which are sold in some 2,600 medical presentations, of which 500 are generic.
- The firm operates two manufacturing plants in the municipalities of Hortolandia and Sao Bernardo do Campo (Sao Paulo state), with a production capacity of 76 million units per month, and has over 6,000 employees, including a sales team of 1,500 people. The company plans to increase its production capacity to one billion units per year, with the construction of two new facilities in the cities of Brasilia (the Federal District) and Jaguariuna (Sao Paulo) by 2015.
- EMS allocates 6% of its annual sales revenue to R&D activities. The company employs 300 professionals in its R&D centre in Hortolandia.

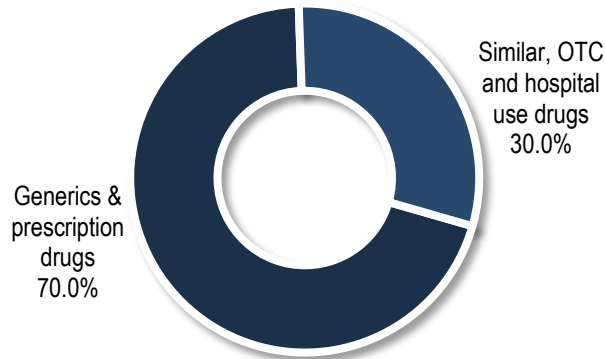
Source: Company data, INTERFARMA, IMS Health

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EMS S.A. (Grupo EMS Sigma Pharma)



Division-wise Sales in Value, 2013 (%)



Market-wise Sales in Value, 2013 (%)



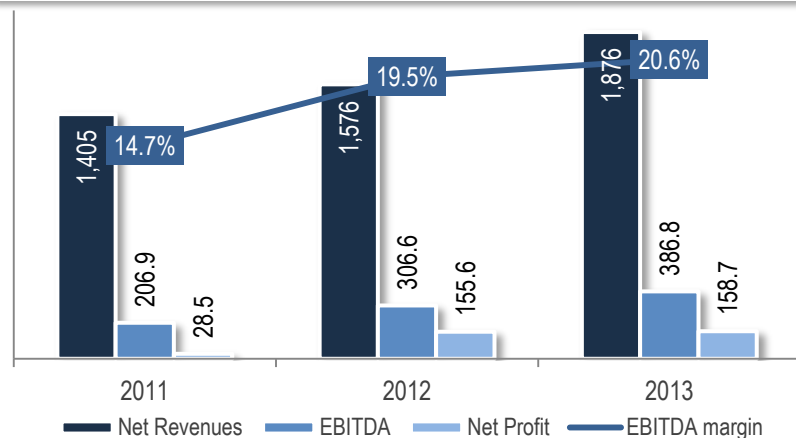
Highlights

- EMS is part of Brazilian group EMS Participacoes SA, held by local entrepreneurs Carlos and Nanci Sanchez. The group also includes local drugs producers Germed, Legrand, Nature's Plus, Novamed and Nova Quimica.
- EMS itself has five divisions: EMS Generics, EMS Sigma Pharma (prescription drugs), EMS Similar, EMS Hospital and EMS Consumer (OTC drugs).
- The company sells its products in more than 40 countries in the Americas, EMEA and Asia.
- In 2006, EMS signed a technical-scientific agreement with Italian research lab MonteResearch to jointly develop new pharmaceutical formulations.
- The company also has licensing agreements with Asian biopharmaceutical firms Shanghai Biomabs and ISU ABXIS, French oncologic drugs maker BioAlliance Pharma and U.S. analgesics company Iroko.
- In 2011, EMS partnered with local rivals Ache, Hypermarcas and Uniao Quimica, to create BioNovis, a joint venture for the development and manufacture of biotechnological drugs in Brazil.
- In 2013, EMS entered the U.S. market with its subsidiary Brace Pharma, focused on investing in late stage clinical products.

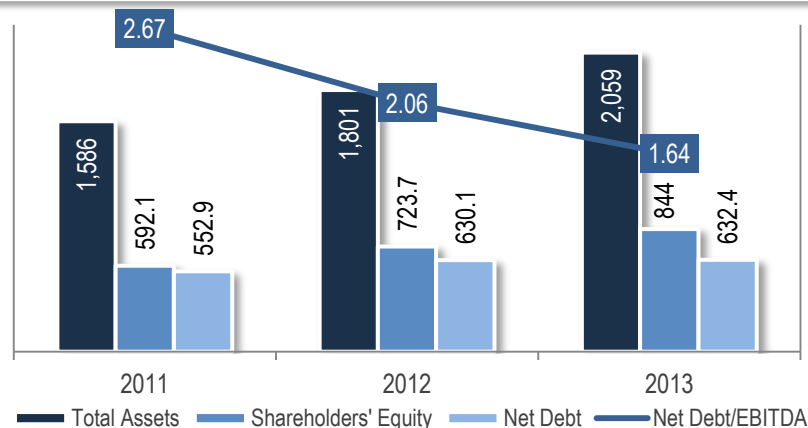
Source: Company data

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Income Statement (Consolidated, BRL mn)



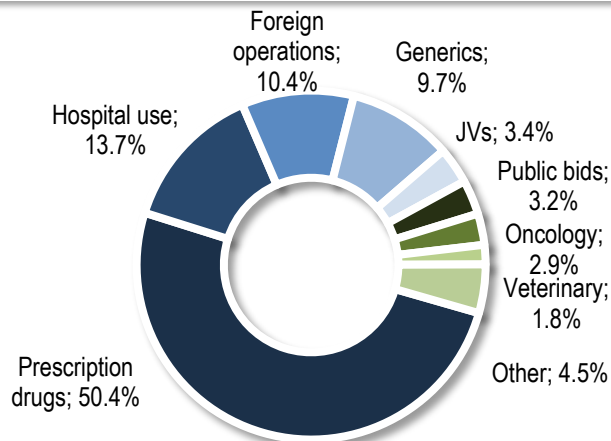
Balance Sheet (Consolidated, BRL mn)



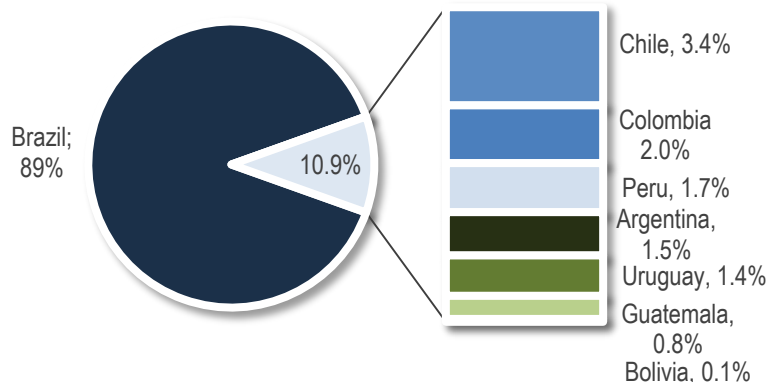
Highlights

- Eurofarma is the fourth largest drugs maker in Brazil in terms of sales value (pharmacy purchase price), with a 4.49% market share in 2013, according to IMS Health, and a solid presence in the prescription and generic drugs segments.
- Eurofarma was founded in 1972 under the name of Billi Farmaceutica, a privately-held entity that produced drugs for third-parties. Over the time, the firm expanded in local pharmaceutical market through organic growth and acquisitions, and went on to produce and market own brands and multinational brands under license.
- The firm pioneered in launching generic oncological drugs and generic oral contraceptives in Brazil.
- The company develops and manufactures prescription, generic, hospital use and OTC drugs. It also markets veterinary drugs for cattle and swine under the Pearson brand.
- Eurofarma operates six manufacturing facilities in the States of Sao Paulo and Rio de Janeiro, in addition to five plants in Argentina, Chile, Colombia, Guatemala, Peru and Uruguay, and has 5,800 employees, including a sales force of some 2,000 people.
- The company allocates 6% of its annual net revenues to R&D activities, and has a current pipeline of 200 projects.

Division-wise Sales in Value, 2013 (%)



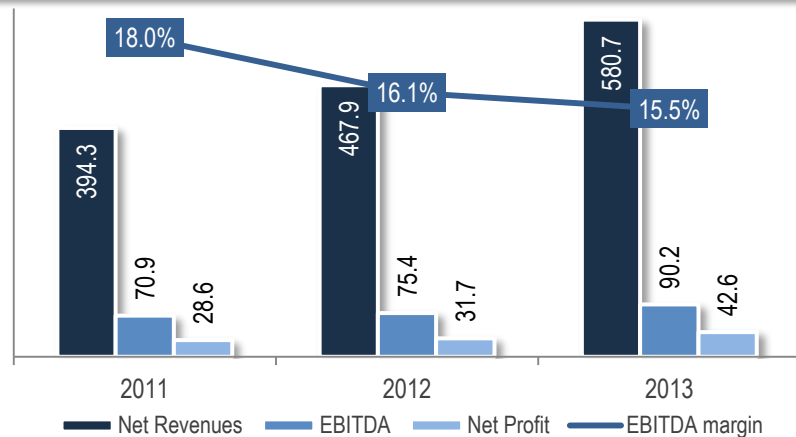
Country-wise Sales in Value, 2013 (%)



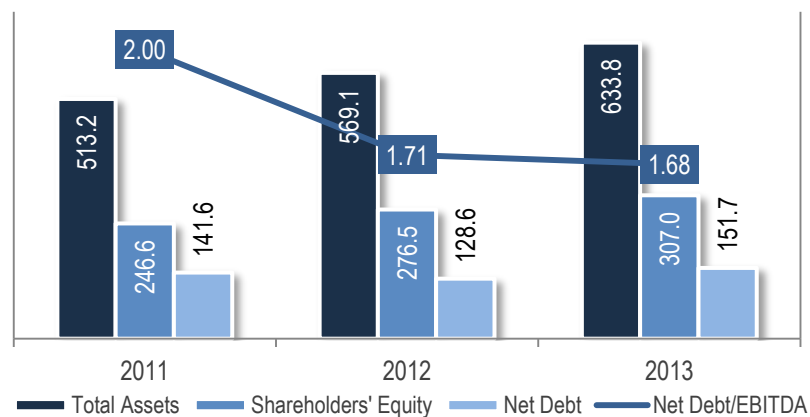
Highlights

- Eurofarma is divided into nine divisions: Medical Prescription, Generics, Oncology, OTC, Hospital Use, Public Bids, Veterinary, Third-party Services and Euroglass (ampoules and flasks).
- In 2009, the company started an internationalisation process through several acquisitions in Argentina (Quesada Farmaceutica), Uruguay (Laboratorios Gautier), Chile (Laboratorio Volta and Farminudstria) and Brazil (Laboratorios Laprin). These were followed by the purchase of the Colombian plant of Merck Sharp & Dohme (MSD) in 2012, and of the drugs makers Refasa Carrion (Peru) and Laprin (Guatemala) in 2013. At present, the company's products are present in 14 countries in Latin America.
- Eurofarma has established several strategic partnerships with pharmaceutical companies as another pillar of its growth strategy. In 2010, the Inova joint venture was created to develop anti-foot-and-mouth disease vaccines, in cooperation with Hertape Calier Saude Animal.
- In 2011, Eurofarma partnered with Cristalia and MSD to create Supera, a joint venture for the development and manufacture of prescription drugs. In 2012, Eurofarma, Cristalia and Biolab established Orygen, a joint venture for the development of biotechnology drugs.

Income Statement (Consolidated, BRL mn)



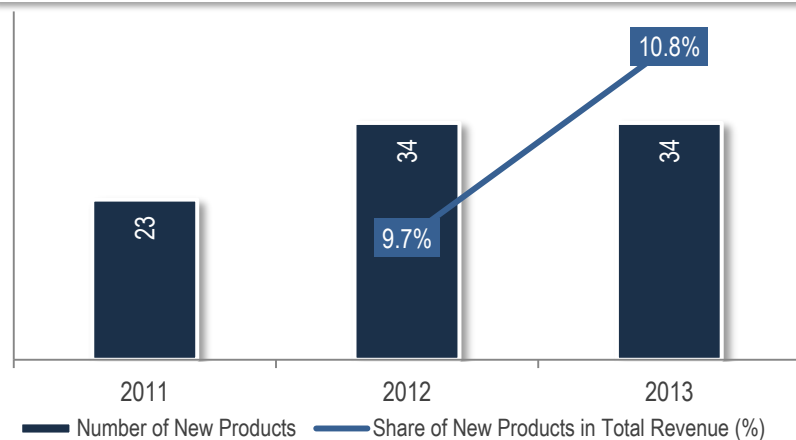
Balance Sheet (Consolidated, BRL mn)



Comments

- Uniao Quimica is one of the largest pharmaceutical companies in Brazil, ranking 10th nationwide in terms of sales volume in 2013, according to IMS Health.
- Founded in 1936 under the name of Laboratorio Prata, the company expanded its presence through organic growth, acquisitions and licensing agreements with foreign companies. Uniao Quimica acquired local OTC and similar drugs maker Biomarco in 2007, and entered the animal reproduction market with the purchase of Tecnopec in 2010. The company further diversified its portfolio in 2012, with the acquisition of the biotechnology company Bthek, focused on pest control products.
- The company develops and manufactures 570 prescription, generic and OTC drugs, marketed under 400 brands, mainly in the contraceptive, ophthalmology, chronic diseases and animal health segments.
- The company operates three manufacturing facilities in Brasilia (Federal District), Pouso Alegre (Minas Gerais) and Embu Guacu (Sao Paulo), and has 2,450 employees, including a sales force of 600 people.

New Product Launches



Production Capacity (per year)

Product Category	Units
Hormone pills (units)	3.8 bn
Oral solid drugs (tablets, coated tablets)	2.6 bn
Oral liquids, syrups, suspensions (units)	43.2 mn
Semi-solid preparations, creams and ointments (units)	24.5 mn
Ophthalmic drugs (units)	22 mn
Injectable liquids (ampoules)	120 mn

Highlights

- Uniao Quimica is organised in two business divisions: Human and Animal Health. The Human Division comprises seven business lines - Hospital, Public Bids, Pharma/Generics, Andromed (OTC drugs), Genom Ophthalmology (Medical sales), Genom Pain/CNS, Genom Gynecology & Obstetrics.
- The Animal Health Division operates under the institutional brand Agener and offers 137 products within two business lines: Large Animals and Pet.
- The company allocates 1.5% of its annual sales revenue to R&D activities. In 2013, the company launched 34 new products and formulations, which accounted for 10.8% of its annual revenue.
- In 2007, the firm started an internationalization process and currently sells its products to several countries in Latin America and Africa
- In 2012, Uniao Quimica entered the biotechnological drugs segment, with the creation of the BioNovis joint venture with EMS, Ache and Hypermarcas.
- In 2014, the company continued its expansion plan through the acquisitions of Brazilian generic and OTC drugs maker Bunker and the plant for prescription and generic drugs in Brazil of Swiss pharmaceutical company Novartis.

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