

# 7.

## Pharmerging Fundamentals: Inside Latin America's Expanding Medicine Cabinet

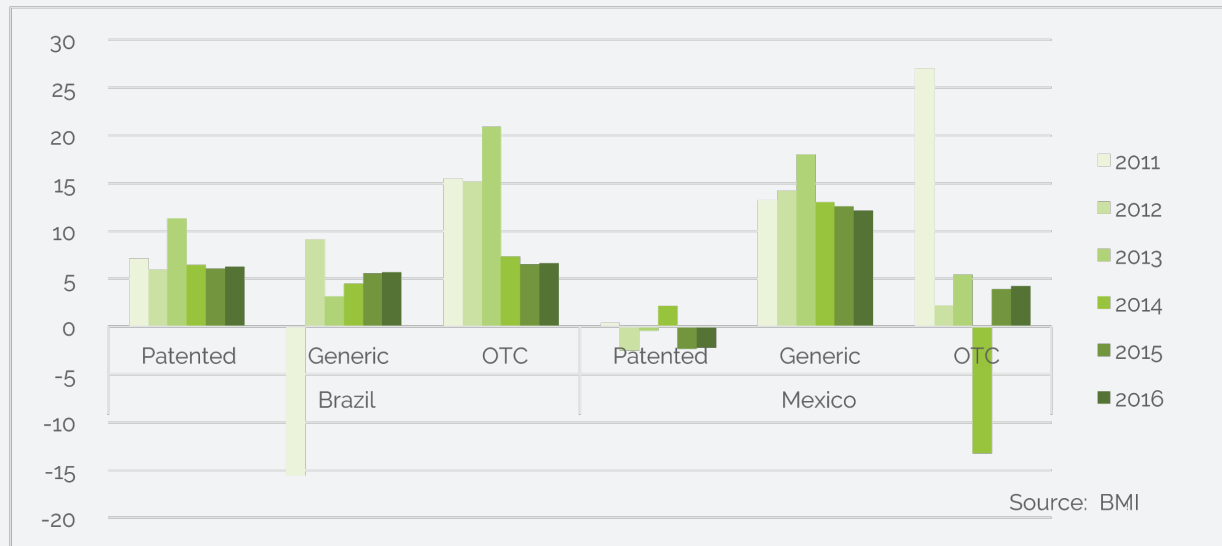
As in other global emerging markets, robust growth of the pharmaceutical market in Latin America is fueled by the region's emerging market dynamics such as a growing middle class, favorable demographic trends and the self-pay nature of primary healthcare that lends towards growing Over-the-Counter (OTC) consumption. These countries are also experiencing increasing urbanization and subsequent access to modern retail, as well as slowly improving regulatory environments that may alter the market landscape. These trends create a "pharmerging" growth dynamic likely to affect pharmaceutical sales in the region for years to come.

- **The importance of OTCs.** As in other emerging markets, the Latin American OTC segment accounts for a substantially higher proportion of the larger pharmaceutical sector. While in mature markets such as North America and Europe OTCs account

for only 9% of total pharmaceutical sales, in Brazil OTCs account for 27%. Yet OTC category growth in Latin America continues to outpace that of patented prescription drugs by a wide margin. Brazilian OTC drug sales outperformed prescription drug sales growth from 2009-2013, registering a CAGR of 18% versus Rx at 13%. Even during the economic downturn of 2015, OTCs continued to outperform while overall retail slowed to 5% growth. This highlights more limited public health coverage of prescription medications that causes consumers to rely more heavily on OTCs. Although growth of the Mexican OTC market was more modest and more cyclically tied than in Brazil, the sector still outperformed its North American counterparts, where the U.S. and Canada registered CAGR of 2.6% and 3.0% respectively during the same period.

## PHARMA CATEGORY GROWTH: BRAZIL & MEXICO

Year-on-year % growth, in local currency



- The rise of generics:** The emerging generic prescription drug segment is the fastest growing pharmaceutical category in Latin America. The category has rapidly gained a foothold in Mexico where public sector coverage of medicines has risen, currently purchasing or reimbursing over 50% of pharmaceutical sales in volume terms. High out-of-pocket rates for private healthcare expenditures for the middle class has further damped sales of more costly patented drugs in favor of generics. Public awareness of and trust in generics has also risen and recent IMS Health research shows that over 40% of Mexicans will purchase generic equivalents. Pharmaceutical players in the region are seeing strong growth in the “branded generics” category that gain consumer trust with a recognizable brand

name. Pharmacy retail sales make up 80% of this category for Abbot Laboratories and drove double-digit record growth in 2016.

In Brazil, sales of generic medications more than tripled in value since 2009 at a CAGR of 32% boosted by the “Popular Pharmacy” program to make over 100 “essential” pharmaceutical products (mostly generics) available to consumers for free (or at a reduced cost) at over 30,000 participating pharmacies. Several dozen patent expirations of popular branded prescription drugs in recent years contributed to the rapid growth. By 2018, generics should exceed a third of the volume in the Brazilian market.

- **Emerging market socioeconomic and demographic growth drivers:**

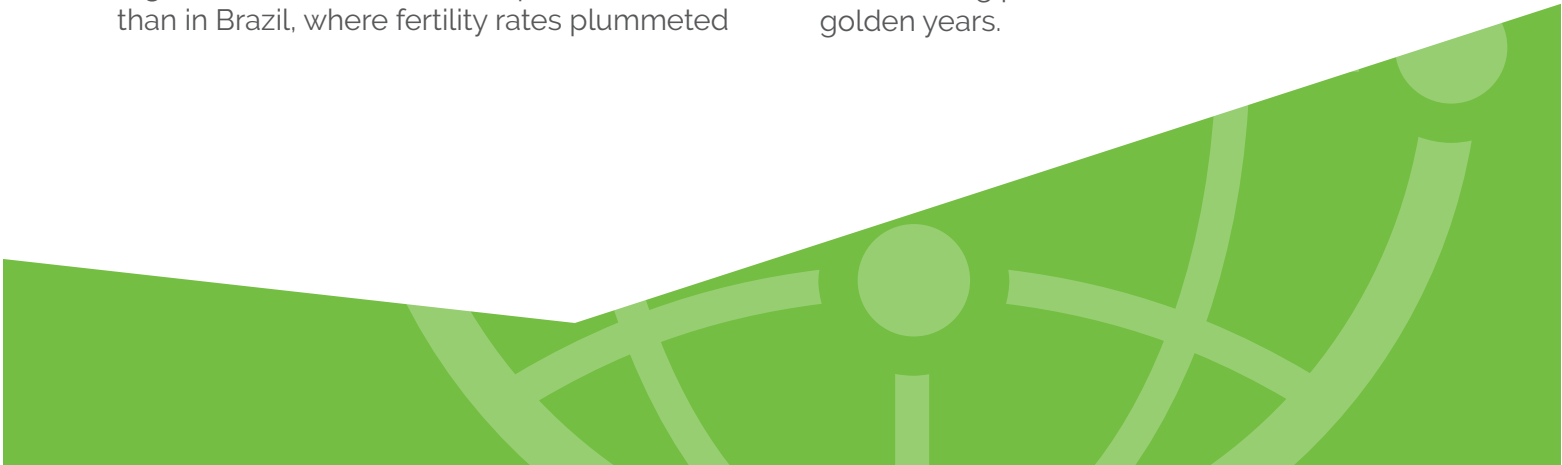
Over the last decade, 100 million Latin Americans ascended from the lower to middle classes, generating both larger disposable incomes and expanding waistlines due to modern lifestyle shifts. The prevalence of adult obesity has reached 33% in Mexico, where 1 in 6 people are diabetic, and 18% in Brazil. The growing non-communicable disease burden, combined with increasing consumer health awareness, are driving increased category demand. While the majority rely on the national health care system, private healthcare has made inroads among middle class segments who are willing to go out of pocket to avoid lines and pay a premium for better health care. Household spending on pharmaceutical products in Brazil increased by 11% in 2013 and 9% in 2014. However, socioeconomic growth is experiencing a setback and Brazilian bank Bradesco found that between January and November 2015, about 2.6 million people left social classes A and B, and another 3.7 million people left class C due to rising unemployment. Pharma sales slowed but continue to post modest growth, pointing to the high priority Brazilians place on this purchase category.

Demographic shifts due to rising birth rates, falling fertility rates and extended life expectancy are hitting home across the region. Nowhere is this more pronounced than in Brazil, where fertility rates plummeted

from 6.2 in the 1960s to below replacement rate at 1.8 in 2015. The country of 200 million people currently enjoys a demographic peak in the economically active population and is seeing an unprecedented increase in its elderly cohort. At an earlier stage in the transition, Mexico has a population of 120 million that is expected to grow by another 18% (21 million) by 2020, contributing more to the region's population growth than any other country. These demographic trends will continue to grow the pharmaceutical market in Latin America into the more distant future.

### Looking ahead: Planting seeds for long term growth.

The pharma sector is currently benefiting from growth in lucrative target segments, such as gainfully employed, middle-aged households and senior citizens. Economic woes of the past two years have seen social ascension waver slightly as unemployment rose across the region, yet pharma sales remained relatively healthy. 2017 should see these trends stable out and consumer confidence return with vigor in 2018. Latin America is the fastest aging in the world, and in 2055 there will be 130 million more Latin Americans over 60 than there are today. Pharma players should invest to build and position their brand in key markets today so that a larger and wealthier senior population will turn to them for mounting pharmaceutical needs in their golden years.



# About Global Health Intelligence

Global Health Intelligence provides detailed information on healthcare infrastructure in emerging markets in order to help clients understand the competitive landscape and identify opportunities for growth.

Founded on over 20 years of research expertise in emerging markets, Global Health Intelligence has developed the world's largest hospital demographics database focused on Latin America.

Find out how Global Health Intelligence can help you grow in emerging markets:

## **Mariana Romero**

Account Manager  
mariana@globalhealthintelligence.com  
+1 (305) 441-9300 x308

## **Guillaume Corpart**

Managing Director  
gc@globalhealthintelligence.com  
+1 (305) 441-9300 x302

## Our Services

### ● Hospital demographics

The world's largest hospital demographics database focused on Latin America

### ● Market size / share

A unique methodology based on the analysis of import data to deliver reliable insights in a timely manner

### ● Tailored research

Refined with 20+ years Market Intelligence experience:

- Market sizing and segmentation
- Partner search & market due diligence
- Competitive profiling
- Pricing and cost analysis
- Best practices
- Positioning and opportunity identification

# Hospital Database Characteristics



12,000 hospitals  
profiled



Coverage in 11  
countries



Over 100 data  
points per hospital



Raw data exports  
to Excel



Integration into  
your CRM



Prebuilt Tableau  
dashboards



Available  
immediately!

