Interview: Nilton Paletta – President Latin America, IQVIA™

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Nilton Paletta, President Latin America at IQVIA™ and responsible for the company's operations in 18 countries in the region, provides insights into the most impactful dynamics shaping the Brazilian pharmaceutical market and reveals the latest projections of the company for this strategic market. He also documents IQVIA™'s remarkable achievements and commitment to bring more predictability to pharmaceutical companies' operations and investments in Brazil, which will in turn contribute to further enhancing the local healthcare ecosystem.

Could you provide us with an overview of the growth dynamics for Latin America and the importance held by Brazil's pharmaceutical market within the region?

While the Brazilian pharmaceutical market grew 13.1 percent in Mar/2017 – MAT and reach USD 21.8 billion, Brazil clearly continues to be the driver of growth for Latin America despite the political and economic challenges recently faced by the country. The Brazilian pharmaceutical market accounts for around 43 percent of the USD 50.2 billion Latin American market, while Brazil's makes

up almost a third of the total population of the region.

In the past years, one the main challenges faced by the region has been related to its difficulty to maintain a sustainable economic growth. However, from 2017 to 2021, the region's overall GDP is set to grow between two and three percent a year, around two times the average of the top 5 European economies, which will positively impact the growth of the Latin American pharmaceutical market.

Looking forward, Latin America therefore holds a very positive growth perspective vis-à-vis other regions of the world, as we expect the region's pharmaceutical market to grow at a CAGR of 7 percent between 2016 and 2021, therefore moving from USD52 billion to USD69 billion by 2021.

What has been the impact of the recent economic crisis on the performance of the Brazilian market in general and on the retail area in particular, while the latter makes up around two-thirds of the overall Brazilian market (USD14.3 billion in 2016)?

Although the triggering of the economic recovery was compromised by the latest political developments, 2017 is indeed set to mark Brazil's exit from a two-year recession period where the Brazilian GDP contracted by 3.8 percent in 2015 and by 3.6 percent in 2016 *[while the OECD recently forecasted 0.7 percent and 1.6 percent grow rates for 2017 and 2018 – Ed.]*. Actually, some critical economic indicators, such as the industrial confidence and consumer confidence indexes, have recently reached their highest levels since respectively May and December 2014 (according to IBRE/FGV).

Overall, the Brazilian pharmaceutical market has remarkably weathered the recent economic crisis, growing in the high single/low double-digit rates over the past 3 years. When refining our analysis, we however see that the recent crisis has affected the market growth in terms of units, and the annual volume growth of the Brazilian retail market decreased from 8.9 percent in 2015 to only 3.2 percent growth in 2017 (MAT April). Volume growth has been driven by generics and other more affordable products. Inflation, which was high in the 2015-16 period, contributed to price growth. Moving forward, with inflation under control at the 3-4 percent level, our expectation is that volume and price growth will be more balanced.

We have seen that retail market growth (in volume) has been rapidly shifting to generics (+12 percent in units in 2016), while the sales volume of exclusive products only grew 0.5 percent and that of mature products decreased by 1.4 percent in the meantime. Furthermore, growth of generics products sales has materialized at all levels of household incomes and significant trade-down has been affecting all therapeutic areas, except those characterized by high innovation levels

(such as diabetes, thrombosis, oncology, and asthma).

What are IQVIA™'s perspectives for the Brazilian non-retail pharmaceutical market, which amounted to USD 7.5 billion in 2016?

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The Brazilian non-retail market has been growing 11.6 percent according to our latest data (PPP and 2nd level – MAT April 2017), through the strengthening of a rather complex set of dynamics. In the public sector, which made up around 57 percent of the non-retail sector, the growth has been mainly driven by new product incorporations and increasing expenditures in high complexity diseases (Hepatitis C, HIV, Immunology, Oncology). Vaccine expenditures has also been increasing, while Brazil already holds one of the best and most complex immunization programs in the world.

In the private market, the growth of the non-retail segment has been mainly driven by the adoption of innovative oncology products.

The growth in judicialization, a process by which patients leverage their constitutional rights to gain access to treatments through legal actions, persists, putting additional pressure on payer budgets.

However, the institutional channel in Brazil remains highly volatile and it is hard to predict if the current growth will be sustainable moving forward. So far, the Ministry of Health's budget for medicines has increased 12 percent in 2016 and 10 percent in 2017, but a recent legislation has capped public spending to inflation rate for the next twenty years (a "shielding" was however decided for healthcare expenses in 2017). In the meantime, we see that the frequency of incorporation of innovative products into the Brazilian public health system (SUS) has been improving over the past few years, although it is still suboptimal.

Overall, what is IQVIA™'s forecast for the Brazilian retail and non-retail market in the coming years?

Looking at Brazil specifically, we expect the retail market to grow 7-8 percent in 2017 and 2018. In terms of mid-term growth, the Brazilian retail market is also expected to grow at a CAGR of 7-8 percent between 2017 and 2021 in nominal terms.

In the meantime, the non-retail market will increase by 4 percent in 2017 and by 5-6 percent in 2018.

How has the structure of the Brazilian market evolved over the past years? Did you notice significant consolidation happening across the value chain?

On the pharmaceutical side, the number of mergers and acquisitions has clearly decreased since 2013. It is extremely difficult to predict how the situation will evolve in the upcoming years, but moving from a double digit to a single digit market growth could prompt multinational companies to consider gaining new market shares through acquisitions. In the meantime, Brazil displays very strong domestic companies, with eleven local producers among the market top 25. Nevertheless, very few local companies have been investing a significant share of their resources in R&D projects, a decision that could cast a shadow on their future growth prospects and prompt them to look at in-licensing and partnership opportunities to enrich their portfolios.

Looking at pharmacy chains, market consolidation has not accelerated recently and Brazil still holds around 75.000 points of sales, with around 10.000 of them being owned by pharmacy chains. These players have so far favored an organic growth approach, including geographic expansion, but they haven’t yet pursued significant acquisitions. International investments had been made lately such as General Atlantic and Pague Menos, AmerisourceBergen and Profarma, as well as CVS and Onofre.

On the wholesaler side, the market leader Santa Cruz bought the second largest wholesaler player Panpharma in 2016, providing the new entity with a important market share participation. On the other hand, Brazil still holds over 800 wholesalers overall, which gives you a concrete idea of the fragmentation of the distributor segment in Brazil.

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The thriving, private hospital sector has been particularly active recently, but there are still significant rooms for consolidation. Overall, the pace of the consolidation in this field remains relatively low. Nevertheless, in May 2015, Brazil has enacted new legislation authorizing international private investors to acquire and operate healthcare facilities in the country, which should further boost M&A activities in this field. As a matter of fact, the American insurer United Health, which bought control of Amil – Brazil’s largest health insurer and hospital operator, for USD4.9 billion in 2012 – has acquired several hospitals recently and now already stands as the country’s third-largest hospital operator.

Talking about HMOs and private payers, the sector has been consolidating at rapid pace over the past five years, as the total number of private payers has significantly decreased from 973 to 790 between 2012 and 2017. In the meantime, the share of HMOs covering more than 250.000 lives has increased from 50 to 55 percent and the trend is set to continue in the coming years.

Although Brazil holds over 40 percent of Latin America's 16,000 healthcare establishments (which is more than the US), the country still lags behind other strategic R&D countries in terms of clinical research investments. How has this situation being evolving recently and how does IQVIA™ contribute to shift the country's paradigm in this regard?

The Brazilian regulatory framework around clinical research has been significantly upgraded over the past few years, but we still hold room for improvement, especially with regards to the registration of new clinical trials. In this context, IQVIA™ has been tirelessly reaching out to the government and other key stakeholders with the objective to demonstrate the critical importance of further incentivizing clinical trials investments in Brazil.

Above all, we have also been leveraging our positioning, as the leading human science data company in the industry to build impactful tools that would bring more visibility and predictability to R&D investors. At the global level, IQVIA™ is currently assembling what we call an ACOE, i.e a global database that would provide global pharmaceutical companies with a deep understanding of the epidemiological, demographical, patients, opinion leaders, disease, etc., healthcare environment dynamics profile of countries part of the ACOE. Brazil is so far the only Latin American country included in this remarkable and global project, which means that companies are now able to access an extremely precise level of information for the country. The latter notably encompasses the geographical localization of patient populations (anonymized) by therapeutic areas across the entire Brazilian territory, data about health centers attended by all these patients and information on the physicians treating them. In Brazil, IQVIA™'s ACOE is already covering twenty-one diseases and we are looking at all sources of data to continuously increase this coverage.

Typically, a global pharmaceutical company aiming to assess the patient population in a strategic market is left with no choice but to compile and aggregate data by itself, which is not its area of expertise. Thanks to this unique database, we can help them swiftly identifying where patient populations are located and how many could be enrolled in an upcoming clinical trial. To summarize, we are truly contributing to accelerate the entire drug development process, which – at the end of the day – means that innovative products will require less time than ever to reach the global market.

In the meantime, this database also will help pharmaceutical companies, payers and researchers in Brazil to enrich their real world insights analyses, which could tremendously foster the implementation of innovative pricing models and partnerships across stakeholders.

What are your main priorities for the Brazilian market moving forward?

Looking forward, our most important priority is to be able to access an ever-increasing quantity of granular data from all key healthcare stakeholders. We are the only company in the market that holds the capabilities to aggregate data across the board, from clinical trials to post-marketing operations – and to turn them into meaningful insights for our partners.

Being successful in this objective will be absolutely paramount for our company, but also for our customers and the Brazilian ecosystem as a whole. Holding comprehensive data at hand brings clarity and confidence to the decision making process, be it with regards to assessing the patient population, calibrating the country's sales force and allocating resources across a continental country like Brazil.

In the meantime, we need to ensure that patients, professionals, and public authorities fully embrace the rising data-sharing era. In this regard, I want to highlight that IQVIA™ is the company in the market that follows the strictest compliance policy regarding data integrity and patient data confidentiality;

Brazil is often described as a complex, unpredictable market. What makes you believe that IQVIA™ is contributing to make the lives of these decision makers easier?

> "Regarding the level and comprehensiveness of local market data that we can provide to our customers, Brazil is comparable to the US, the five major European markets and Japan"

Regarding the level and comprehensiveness of local market data that we can provide to our customers, Brazil is comparable to the US, the five major European markets and Japan. In the grand scheme of things, this means that we are able to offer the same level of predictability to pharmaceutical companies and decision makers operating in Brazil as in other strategic markets around the world.

This is great news for Brazil and our healthcare ecosystem: when it comes to large, multiple-year investments, multinational requires a high level of data precision to assess their return on investment. In this regard, being able to provide our Brazilian executives with the same indicators as their counterparts in Europe or North America truly contributes to put Brazil in the big league and entrench its position as a major pharmaceutical market and investment destination.

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