

Opportunities Offered by Emerging Markets

(Source: Edited excerpts from an article prepared by Amit Agarwal, Julio Dreszer and Jean Mina and published by McKinsey & Company)

The authors believe emerging markets are following a predictable cycle that will likely return them to a positive outlook before long, perhaps as soon as the current wave of launches is complete. They further believe emerging markets could still see a doubling of pharma revenues for the top 20 markets in the next ten years. The opportunity remains attractive even excluding China, which is a large and strategic market for most pharma companies, independent of their strategy in other emerging markets.

The article identified three tiers within emerging markets: tier one – China; tier two - Brazil, India, Russia; and, tier three - Algeria, Argentina, Bangladesh, Chile, Colombia, Egypt, Indonesia, Kazakhstan, Mexico, Nigeria, Pakistan, Philippines, Poland, South Africa, Saudi Arabia, Turkey, and Vietnam,

Using sources from *BMI Research* (May 2017) and *IMS Global Use of Medicines*, the article estimates that in 2025 emerging markets, all three tiers, will be valued at US\$490 billion with China accounting for almost half of that value. To capture opportunities for growth in these markets, the article suggests that multinationals must be prepared to take a long-term view, continue investing in emerging markets, and take calculated risks. To succeed in this endeavor and move on from the old "go and grow" mind-set, pharma needs to: (1) define clear long-term strategic objectives for emerging markets; (2) adapt the business model to the nature of emerging markets; and, (3) build an agile organization tailored to emerging-markets' specific needs.

With respect to defining the long-term strategic objectives, the article states, "Some pharma multinationals capture opportunities from time to time in emerging markets, without clearly outlining the role of emerging markets in their overall strategy. Others are more purposeful, adjusting expectations and resetting aspirations with a longer-term perspective, as well as identifying how to achieve wider business goals from their emerging-market presence. In addition to looking for scale and growth, these successful multinationals have broadly used their emerging market activities to pursue three strategic objectives: grow and expand patient access; create an innovation hotbed; and, diversify risk.

"With many under-diagnosed and under-treated diseases, emerging markets still offer an attractive growth prospect for pharma companies, as several of these countries see rapidly rising incomes, better-informed patients, and expanding access to healthcare. Furthermore, operating in emerging markets requires multinationals to make their medicines available to lower income countries and patients. Forming partnerships or voluntary licensing deals can help them broaden patient access, build their reputation, and attract incremental revenues while keeping a lid on investment."

The authors suggest for adapting the correct business

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In Brief...

- ◆ **EBOS Group Limited** entered into a binding agreement to acquire **HPS**, Australia's largest provider of outsourced pharmacy services to hospitals, for A\$154 million (US\$117.3 million.) The acquisition will extend EBOS' existing hospital business in Australia and take advantage of HPS' long-term relationships and contracts with key hospital groups, correctional facilities, and oncology and fertility clinics. EBOS Group Chief Executive Officer, *Patrick Davies*, said that the HPS acquisition is an important strategic investment, giving the group a vertically integrated model in the market segment.

- ◆ **Walgreens Boots Alliance** announced it is abandoning its deal with **Rite Aid** in its current form in favor of a new agreement. Under this new agreement, Walgreens Boots Alliance will acquire 2,186 Rite Aid locations for US\$5.175 billion in cash. The deal includes the assumption of real estate leases and the grant of an option to Rite Aid to become a member of Walgreens Boots Alliance's group purchasing organization, **Walgreens Boots Alliance Development**. The current divestiture agreement with **Fred's Pharmacy** (part of the original merger deal) is terminated. *Stefano Pessina*, WBA executive vice chairman and CEO of Walgreens Boots Alliance, said "This new transaction extends our growth strategy and offers additional operational and financial benefits." Separately, WBA reported a 5.3 percent boost in fiscal third-quarter profit to \$1.16 billion, or \$1.07 per share. Revenue rose 2.1 percent to \$30.1 billion.

AmerisourceBergen Corporation's (ABC) specialty pharmacy, **U.S. Bioservices**, has been awarded specialty pharmacy practice accreditation by the **Center for Pharmacy Practice Accreditation**. "We understand that patients who

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AmerisourceBergen's New Organizational Structure

(Sources: Company Press Release and Business Wire)

AmerisourceBergen has announced a new organizational structure designed to further align the organization to its customer needs, in what the company has defined as a more seamless and unified way, while supporting corporate strategy and accelerating growth. The Company's customer facing offerings will now be aligned under two groups: Pharmaceutical Distribution and Strategic Global Sourcing and Global Commercialization Services and Animal Health.

Pharmaceutical Distribution and Strategic Global Sourcing will be led by Group President Robert P. Mauch, Pharm.D., Ph.D., and includes the Company's services to retail chain and independent pharmacies, health systems, physician practices and Alternate care sites as well as AmerisourceBergen's sourcing, repackaging and specialty pharmacy capabilities. Peyton Howell will assume a new role as President, Health Systems, Physician Practices and Strategic Health Solutions within the group.

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Opportunities (cont.)...

model: “Prioritize the portfolio country by country; explore new commercial models and channels; pivot from traditional commercial approaches to access-driven ones; adjust to the needs of out-of-pocket and consumer markets; and, think beyond the commercial model.

With regards to thinking beyond an existing commercial model, the authors suggest, “In pursuing opportunities to differentiate themselves, companies should look beyond sales and marketing. Even when R&D is organized globally, it can still adapt to local conditions by undertaking licensing and M&A to enrich the country portfolio, for instance, or by developing medicines specifically to meet local constraints, such as medicines' stability at higher temperatures. Local manufacturing too can act as a key differentiator, when it is not a requirement for entry. And supply chain excellence can confer a competitive edge in markets such as sub-Saharan Africa, where getting drugs to patients via pharmacies and other channels remains a challenge (a challenge which the IFPW Foundation is working to address.)

In building an agile organization, the third component of success, the article stresses, “Organize emerging and developed markets separately; strike the right balance between global and local capabilities; and, improve foundational agility.”

The authors conclude, “Despite recent turbulence, emerging markets continue to represent an important source of value for multinational pharma companies. But simply being present in emerging markets is no longer enough to earn a good return. Instead, companies need to recognize the differences between emerging and developed markets, adapt their approach to these markets' characteristics and needs, commit to a long-term vision, adapt their business model, and build an agile organization fit for the purpose of capturing growth from new opportunities as they emerge.”

About the authors: Amit Agarwal is an associate partner in McKinsey's Singapore office, Julio Dreszer is a partner in the Miami office, and Jean Mina is an associate partner in the Geneva office. Go to <http://www.mckinsey.com> to obtain a copy of the report – “What's Next for Pharma in Emerging Markets?”

AmerisourceBergen (cont.)...

Global Commercialization Services and Animal Health will be led by Group President James F. Cleary, Jr., and includes the Company's solutions for product commercialization and patient access, as well as international development and animal health.

“AmerisourceBergen has assembled and built best in class capabilities to support every stage of pharmaceutical care, with the goal of ensuring access to medicines that create healthier futures for patients,” said Steven H. Collis, Chairman, President and Chief Executive Officer of AmerisourceBergen. “This strategy has served as the engine of AmerisourceBergen's success and we are now evolving our organization to capitalize on our unique portfolio of services. Our vision is to accelerate AmerisourceBergen's corporate growth by further aligning our operating model to the dynamic customer needs in the health and pharmaceutical industry.” For financial reporting purposes, AmerisourceBergen operations will continue to be comprised of the Pharmaceutical Distribution Services reporting segment and Other.

AmerisourceBergen has also formed a new management

committee to enable quicker, cross functional decision making. This senior executive group includes: Steven H. Collis, Chairman, President and Chief Executive Officer; John G. Chou, Chief Legal and Business Officer, Sun Park, Executive Vice President, Strategy and Business Development, Dale Danilewitz, Executive Vice President and Chief Information Officer, Gina K. Clark, Chief Communications and Administration Officer, Kathy H. Gaddes, Executive Vice President and Chief Human Resources Officer, Rita Norton, Senior Vice President, Government Affairs and Public Policy, James F. Cleary, Jr., Group President, Global Commercialization Services and Animal Health; Tim G. Guttman, Chief Financial Officer; Robert P. Mauch, Group President, Pharmaceutical Distribution and Strategic Global Sourcing.

“...This group will be singularly focused on aligning every aspect of AmerisourceBergen to our purpose, corporate strategy and continued growth. We believe this next evolution of AmerisourceBergen will enable the Company to be more nimble and effective, actively supporting our customers as they grow and unlock the full value of their businesses,” said Collis.

In Brief (cont.)...

need a specialty medication also need specialized care,” U.S. Bioservices president *Kelly Ratcliff* said. “This accreditation is a tribute to our associates and their unwavering commitment to delivery integrated, high-touch clinical care to patients and caregivers every day. Our leadership team continues to align all of our decisions and investment around that core responsibility—improving lives through high quality care.”

- ◆ Foreign pharma sales in Japan in 2016 are expected to show a dip as compared with the previous year's level. This marks the first negative growth in recent years. Headwinds caused by drug price revisions and struggling off-patent brand-name medicines make it difficult for foreign pharmas to overcome these challenges. Lingered uncertainty in the Japanese market over the medium- to long-term outlook will continue as Japan prepares for a drug pricing overhaul.

- ◆ For the first time in ten years, drug sales forecasts will fall due to pricing pressure and increased scrutiny surrounding the pricing of medicines, according to a the latest “*World Preview*” report by **Evaluate Intelligent Life Sciences**. Consensus forecasts are down from US\$1.12 trillion to US\$1.06 trillion in 2022. Despite these downgraded forecasts, some of the hottest industry products, including cancer immunotherapies (such as *Keytruda* and *Optivo*) are expected to help forecasts top the US\$1 trillion sales target. For more information, please visit EvaluatePharma's website at www.evaluate.com/PharmaWorldPreview2017.

- ◆ According to a **United Nations** report, “*World Population Prospects: The 2017 Revision*”, the world population is expected to hit 9.8 billion by 2050. Near term, India's population is expected to surpass China's in approximately seven years, while Nigeria is expected to overtake the United States, making it the world's third most-populous country, by 2050. About 83 million people are added to the world population annually, a trend that is expected to continue despite falling fertility rates.

(Sources: China Daily, Company Press Releases, Drug Store News, Pharma Japan, and Yahoo Finance)