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The News Letter of James Dudley Management

New Year 2012

Russia Set to Join World Trade Organization in 2012

After nearly two decades of negotiation Russia is set to become the newest member of the World Trade Organisation. While this gives the Federation free access to the world market, it opens up Russia to foreign competition by reducing tariffs and other barriers to entry.

The final documents enabling Russia's membership of the WTO were signed in Geneva 17th December. Russia's entry will be the biggest step in global trade liberalization since China joined a decade ago, and will boost the country's €1.15 trillion economy, according to the World Bank. Russia now has six months to ratify its membership. It will become a member a month after ratification.

Russia must reduce tariffs of agricultural and manufactured goods. The State can no longer limit competition through quotas, subsidize its exports or import substitutes or impose artificial restrictions such as spurious health and safety rules.

Russia's tariffs on pharmaceuticals currently average 5.7% and can be as much as 15%. After full implementation of its WTO accession commitments, Russia's average tariff imports will be reduced to 4.4%.

Figure 1: Forecast for the Consumer Healthcare OTC Market in Russia to 2015

Source: OTC Distribution in Europe the 2012 edition

Accession will bind Russia to the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (the TRIPS Agreement).

Picture: Protek-Group

This provides a framework for protecting and enforcing intellectual property rights including undisclosed information for pharmaceutical entities in support of marketing approvals.

On the downside Russia's failure to embrace Good Manufacturing Practice (GMP) for its pharmaceutical industry demonstrates a lack of modernization. Until this is dealt with it will limit the ability of local companies to target export markets.

The Russian consumer healthcare market for OTC medicines is today worth some €5.6 billion and on current trends is set to grow to €6.9 billion by 2015.

Alliance Boots to Expand Alphega Network Globally

At the end of November last year Alliance Boots head, Ornella Barra, announced that Alliance Boots is to expand its independent pharmacy network Alphega beyond Europe.

Initially launched in France 10 years ago the Alphega network has grown into an organization spanning six European countries with 5,000 members. These along with France include Czech Republic, Italy, Spain, Russia and the UK.

Speaking at its annual European Convention in Monaco on November 29, Ms Barra informed delegates of her intentions to both expand the geography of Alphega and to increase the size of membership. This would involve expanding beyond Europe to create an international organization.

Celesio to Close Underperforming Pharmacies in Belgium

Less than a month after Celesio announced that it planned to close 16 of its DocMorris Apotek pharmacies in Sweden the company is set to cull 12 underperforming Lloydspharma pharmacies in Belgium.

In what Celesio describes as a "strategic alignment" of its business the decision to reduce the size of its Belgian pharmacy chain had been taken as a result of a strategic and financial review of the development and potential of the pharmacies.

Economic pressures within the Belgian pharmaceutical market have adversely affected the profitability of weaker pharmacies in Belgium. Some smaller Lloydspharma branches have not escaped from these challenges and as a result had not developed as expected.

Celesio stated that the rationalization of its Belgian branch network would "optimize" the chain at around 100 stores.

Non-Price Regulated Products and OTC Medicines – Good for European Pharmacy Profits

With Europe's pharmacies finding it harder to generate profits from dispensing and other social health services non-price regulated products including OTC self-medication and other health and beauty products represent an opportunity to add to turnover and boost margins.

On average non-price regulated merchandise provides over 30% of turnover and probably doubles that in margin. This is according to James Dudley's new report OTC Distribution in Europe the 2012 edition.

The European retail healthcare market is estimated to be worth €230.86 billion in 2011 and almost all of it is delivered through 157,310 pharmacies in the 19 countries under study. Of the total market 69% is made up of drugs dispensed against doctors' prescriptions, 9% is from consumer purchases of OTC medicines for self-medication and the remainder, 22% is from other health and beauty products which include personal hygiene, nursing aids, dietetics and baby products, toiletries and cosmetics.

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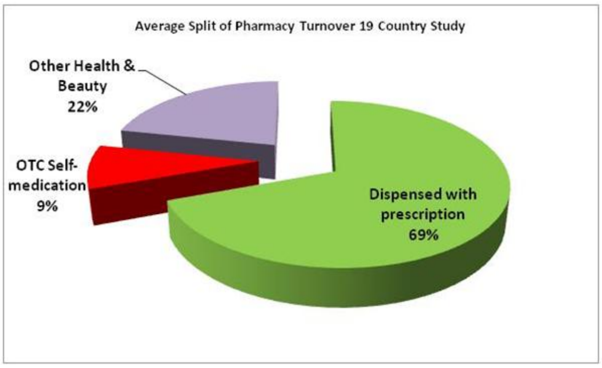
Figure 2: Average % Split of Pharmacy Turnover 2011 - base 157,310 pharmacies



Source: ©James Dudley Management OTC Distribution in Europe the 2012 edition - Entering the New Era

Excluding mass market sales, 86% of the European OTC self-medication market in Europe's main markets is delivered through 157,310 pharmacies. Yet, this accounts for less than 10% of average pharmacy turnover across the region. Other health and beauty products represent over a fifth of average pharmacy turnover.

Figure 3: Average % Split of Pharmacy Turnover by Country 2011 base 157,310 pharmacies

Country	Drugs Dispensed with Prescription %	OTC Self medication %	Other Health & Beauty %	Total Turnover
Russia	32.0	19.4	48.6	100.0
France*	65.0	4.5	30.5	100.0
Italy*	68.0	5.8	26.2	100.0
UK*	71.0	6.4	22.6	100.0
Spain*	76.0	2.6	21.4	100.0
Belgium	68.0	11.0	21.0	100.0
Switzerland*	63.9	16.7	19.4	100.0
Austria	69.0	13.0	18.0	100.0
Netherlands*	82.0	1.5	16.5	100.0
Denmark	73.2	10.8	16.0	100.0
Sweden	76.4	8.2	15.4	100.0
Slovenia	72.9	12.1	15.0	100.0
Hungary	70.0	15.0	15.0	100.0
Slovakia	70.0	19.6	10.4	100.0
Czech	70.0	19.8	10.2	100.0
Finland	80.6	10.4	9.0	100.0
Poland	70.0	21.2	8.8	100.0
Norway	86.0	8.9	5.1	100.0
Germany*	83.6	11.3	5.1	100.0
Average 19 Countries under Study	69.4	8.8	21.8	100.0

*Consumer OTC purchases only - other non-prescription medicines included with drugs dispensed with prescription

Source: ©James Dudley Management
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In 6 out of the 19 countries under study OTC medicines outperform other health and beauty products these include Slovakia, Czech Republic, Finland, Poland and Germany. In Hungary OTC self-medication and other health and beauty products turnovers are about equal.

In Russia nearly half of turnover is from other health and beauty products, while OTC self-medication represents a little under 20%. In France perfumery and unlicensed skincare makes up a large proportion of the 30% of turnover represented by other health and beauty products. In Switzerland , Belgium, Spain, the United Kingdom and Italy consumer purchases of other health and beauty products represent between a fifth and a quarter of pharmacy turnover.

GSK Finds Buyer for Rights to 'Non-core' Brands in North America

Prestige Brands Holdings has acquired the rights to several 'non-core' OTC self-medication brands in the US and Canada from GlaxoSmithKline for €510 million.

The acquired brand portfolio achieved sales of €160 million in 2010 and €112 in the first three quarters of 2011 and includes Ecotrin, pain reliever BC and heartburn remedy Tagamet. Prestige Brands Holdings is a US-based company, which specializes in consumer healthcare and household cleaning products.

GSK is still looking for a buyer for the global rights to its slimming brand Alli and for the European rights to its other 'non-core' brands. Negotiations are continuing for licenses to these brands, which according to GSK achieved revenues of around €478m during 2010.

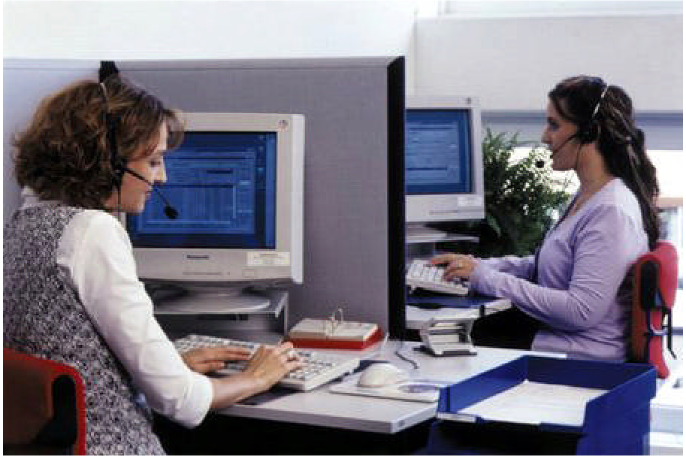
EMA Refuses OTC Status for Sumatriptan using the European Union's Centralized Procedure for a Second Time

Galpharm's application to gain non-prescription status for sumatriptan using the European Union's centralized procedure has been rejected for a second time. This, despite the fact that the drug is a licensed non-prescription medicine for treating migraine in a number of countries around the world.

Galpharm had sought a review of the European Medicines Agency's (EMA) negative opinion which it issued in July. Following consideration by its Committee for Medicinal Products for Human Use (CHMP) the EMA's said its initial opinion had been re-examined but decided once again to refuse a marketing authorization on 17th November 2011.

Sumatriptan enjoys non-prescription status for the treatment of migraine in New Zealand, Sweden and the UK.

German Mail Order and Internet Pharmacy Forecasts €1.3 billion in 2011



Picture: Medical Services, CH - Call Centre of Medicare mail-order pharmacy service

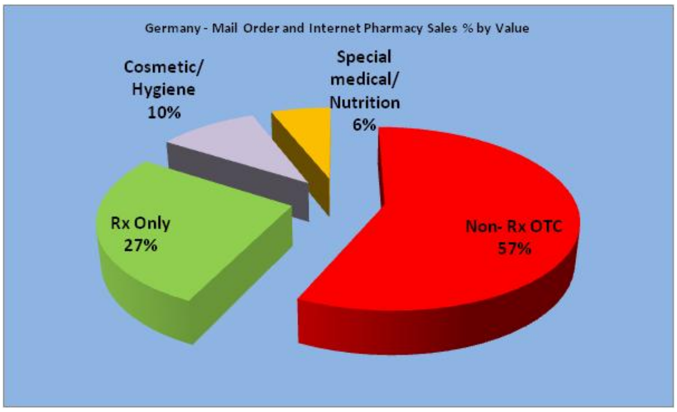
According to figures from the German Mail Order Pharmacy Association (BVDE) and CIM the direct dispatch sector will achieve €1.3 billion in 2011.

57% of mail order and Internet pharmacy value turnover is represented by non-prescription medicines, while prescription only products account for 27%. Cosmetics and hygiene products represent 10% and special medical products and nutrition take 6%.

In volume terms non-prescription OTC medicines account for 74% of packages shipped by German mail order and Internet pharmacies. Prescription only medicines represent just 7% of packages shipped. Cosmetics and hygiene products account for 12% of packages and special medical products and nutrition take 7%.

According to BVDE mail order and Internet pharmacy sales of OTC medicines increased by 8.6% in the first half of 2011, while cosmetics and hygiene products grew 18.1%

Figure 4: Average % Split of Mail Order and Internet Pharmacy Value Turnover in Germany 2011



Source: BVDE 2011

Non-prescription Drug Growth Forecasts to 2015

Europe's major non-prescription drug markets will grow by 4.8% on average to 2015 according to trends estimated in James Dudley Management's new report OTC Distribution in Europe the 2012 edition.

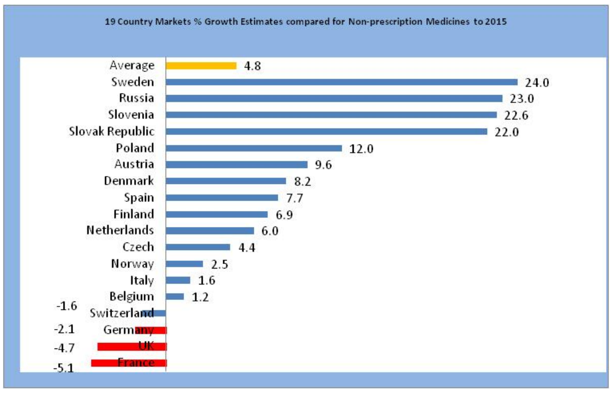
Sweden, Russia, Slovenia and the Slovak Republic are forecast to provide comparatively high growth of over 20% for the period 2011 to 2015 - based on current trends.

Poland is expected to achieve12% growth. Austria, Denmark, Spain, Finland and the Netherlands seem set to produce growth rates of between 5% and 10% over the period. Czech Republic, Norway, Italy and Belgium will probably show positive growth but this will fall below 5%.

Most worrying is that Switzerland, Germany, UK and France are forecast to show negative growth to 2015.

Economic and political problems in Hungary may undermine hitherto strong growth in the non-prescription sector to 2015.

Figure 5: Leading Non-prescription Drug Forecast Growth % to 2015



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