

Market Evolution

Public Pharmaceutical Expenditure (pharmacies)

	Ago. 2012- Julio 2013	Ago. 2011- Julio 2012	% var. 2013/12
Exp. (€ Mill.) *	8.996,5	10.651,8	-15,54%
Prescrip. (Millions)	845,9	973,1	-13,07%
Av. Exp. per. prescription (€) *	10,63	10,95	-2,84%

*Retail price (VAT included).

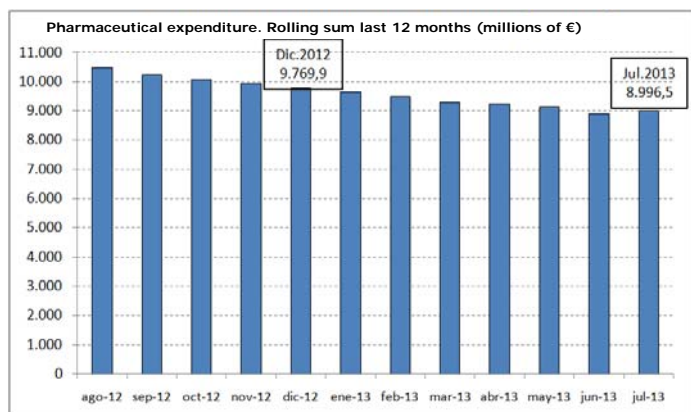
Data from the Ministry of Health, Social Services and Equality shows that in July 2013, public pharmaceutical expenditure at pharmacies experienced a drop of -15.5%, compared to the same month the previous year. This variation in expenditure is a consequence of a fall in the number of prescriptions (-13.1%) and a drop in the average price per prescription of -2.8%.

As anticipated in our previous bulletin, July's annual pharmaceutical expenditure rate registered a substantial rise. This is due to the comparison made with the registered pharma expenditure in July 2012, which was atypically low; there was a "stocking up" of prescriptions in June prior to the co-payment scheme (based on income) which came into force in the July.

It is foreseeable that during the next couple of months a similar pattern will be reflected matching June and July of last year - given that the de-listing of 417 formats of medicines for minor symptoms was carried out in September 2012 - which produced an effect similar to that of the co-payment scheme, albeit, with less intensity.

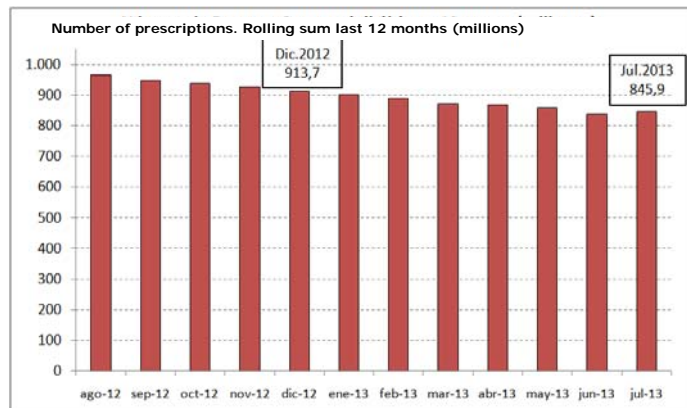
Likewise, August 2012 registered a stocking up of medicines that would not be financed in September, and, it is probable that August 2013 reflects a fall in the annual rate on the demand side of prescriptions, followed by an increase in the annual rate in September 2013.

Expenditure in the 12-month period from July was 733.4 million euros lower than the figure at the close of the year (see the chart below) and it is probable that this differential be even more marked by the time we reach the end of 2013.

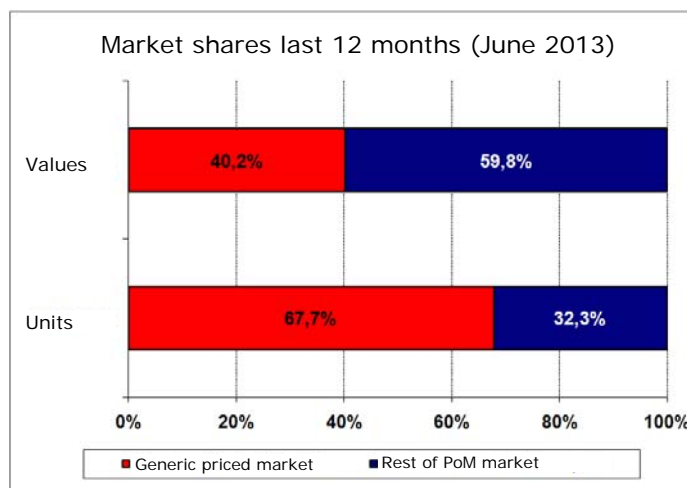


Similarly, the demand on prescriptions, as a whole, continues to fall in the NHS.

As shown in the following chart, the demand on prescriptions in the 12-month period to July 2013 was lower than the year end figure of almost 70 million prescriptions.



Finally, data from the IMS covering the 12-month period ending June 2013 shows that the whole of the medicines market with generic prices reached 67.7% of the total prescription market, in units, in Spain, and 40.2% of said market value.

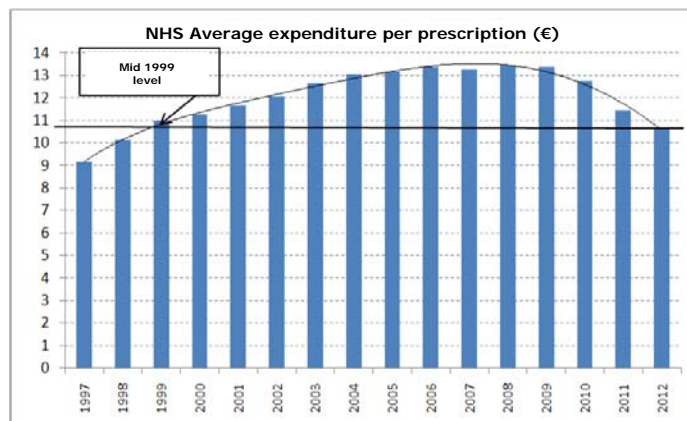


Source: Farmaindustria estimation from IMS.

Note: Total market net from RDL 8-2010 and 9-2010 RDLs rebates.

The average Price of NHS medicines dispensed in Spain is 20% lower than the average price in other Euro zone countries.

As shown in the following chart, the negative evolution followed by the average cost of prescription over the last few years has taken this variable to levels not seen since 1999.



Source: Farmaindustria from MoH data

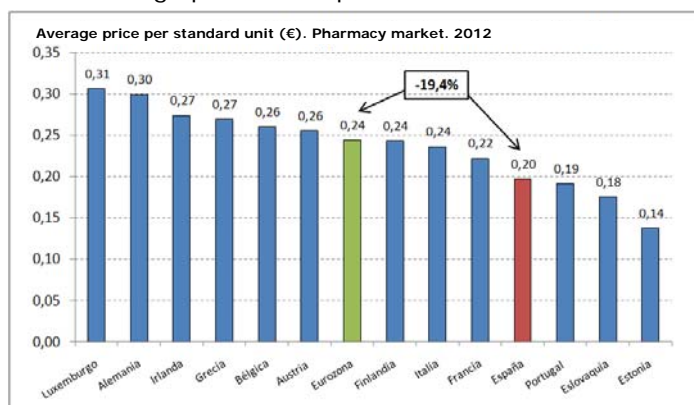
In fact, annual data shows the average expenditure per prescription in Spain has fallen continuously between May 2010 (when the average cost was 13.43€) and June 2013, where average expenditure was 10.60€/prescription; this amounts to 38 consecutive months of decrease.

The main reason behind this performance is the significant impact cost containment measures have had on the average expenditure over said period. In particular, the rebates on retail prices of medicines laid down in R.D laws 8/2010 and 9/2011; changes and updates to the reference pricing system, lower pricing and lowest prices by homogenous groupings, the new co-payment system and the toughening up of pricing and public reimbursement criteria for new products etc.

In this regard, it is of interest to study the impact these measures have had on average expenditure from an international perspective.

Although there is no international comparable data of average public expenditure per prescription, it is possible to carry out an international comparative of average prices through the IMS data¹ for the medicines dispensed at pharmacies in European countries²

The following chart shows the results of the comparison of average prices of dispensed medicines³.



Source: Farmaindustria from IMS Health Midas. Retail market.

As you can see, Spain ranks low, almost a -20% below the average in the Euro zone. In 2012, only Portugal, Slovakia and Estonia had an average price per unit lower than Spain's.

If we studied data from the same 13 countries in the previous chart for 2011, the differential between Spain and the Euro zone countries would be around -16%. This evolution proves the progressive deterioration of prices in Spain.

¹ IMS Health MIDAS Database, retail market.

² Euro Zone countries with the exception of Cyprus, Slovenia, Holland and Malta were chosen as European reference countries so that IMS MIDAS could avoid variations in exchange rates that could distort comparatives.

³ A standard unit avoids distortions that could be introduced in the comparative of average prices given the existence of international differences in consumption relative to different formats or doses of the same medicine.

The innovations market has experienced a fall for three consecutive years where the NHS is concerned.

As is well known, the R.D.L. 8/2010 laid down a series of rebates on the retail price for all medicines invoiced to the NHS; those medicines not subject to reference pricing and that were not generics. These rebates came into effect from June 2010.

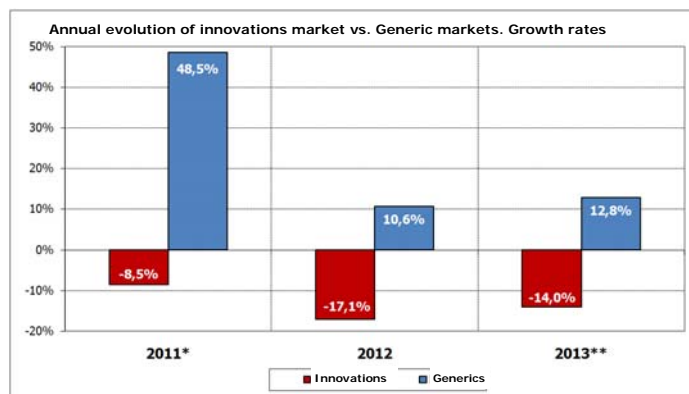
The market subject to rebates could be called "the innovative market", given that it is made up of products that don't have a generic (in the majority of cases, they are still under patent protection) and therefore not subject to reference pricing.

This is a dynamic market as these products are new medicines at the moment of their launching in Spain. When these product's patents expire, they are then incorporated in the Reference Price System.

In this way, the evolution of this sub-market is a good indicator of pharmaceutical innovative development in our country.

On the other end of the sub-market spectrum are the generic medicines (EFG), for those medicines whose patents have expired.

If we study the evolution of both sub-markets in the last 3-years, the results obtained are seen in the chart below.



(*) June-Dec. 2011 vs. June-Dec. 2010

(**) Whole period Jan-July 2013 vs. Jan-July 2012

Source: Farmaindustria + IMS

These results indicate how, in a decreasing market context, the sub-market of generic medicines is experiencing a strong growth in the last few years in Spain, while the public sub-market of innovative medicines has had 3 consecutive years of downturn.

As a consequence, and as time goes by, innovative medicines hold less influence in the pharmaceutical market in our country, while those medicines whose patent has expired (in the sub-market), are significantly on the rise. This is a clear indication of the relative "aging" process the public pharmaceutical services in Spain has been experiencing in the last few years.