

Mediobanca Research Department
Major Italian Groups in the Pharmaceutical Sector 2009-2013

Size and Outlook of the Global Market

The global expenditure on medicines is expected to grow from US\$ 989 bn in 2013 to approximately US\$ 1,300 bn by 2018, accumulating a variation of around 300 bn that would be about 55% higher than the one created between 2009 and 2013 (+US\$ 194 bn) ⁽¹⁾.

The US market is currently the largest, amounting to about 1/3 of the world total (US\$ 340 bn) and looks set to grow at an average rate of 6.5% to US\$ 465 bn by 2018, with a development significantly higher than the 3.6% average of the past five years. China is the second largest pharmaceutical market, with a value of US\$ 98 bn. By 2018 it could stand at US\$ 170 bn, with a cumulative growth approaching 12%, shrinking from +19% in the 2009-2013 period. Subsequent positions are structured as follows: Japan at US\$ 94.1 bn (+3.2% over 2009 and expectations of around +3% throughout 2018), Germany at US\$ 46 bn (+3.9% over 2009 and positive expectations of 3% by 2018), France at US\$ 37 bn (-0.7% and negative expectations of 1%), Brazil at US\$ 31 bn (+15.2% and +6%); Italy at US\$ 28 bn (+2.5% over 2009 and +3% in 2018), and the UK at US\$ 25 bn (+5.5% in both cases). The greatest expectations for growth by the end of 2018 concern the emerging pharmaceutical markets (referred to as *pharmerging*): in addition to China and Brazil, this includes Russia (+12.8% and +7%) and India (+14.9% and +13%).

Country	Sales 2013	Average annual % change 2013- 09 US\$ bn	Sales 2018E	Average annual % change 2018E- 13
USA	340.0	3.6	465.0	6.5
China	97.7	19.0	170.0	11.7
Japan	94.1	3.2	107.0	2.6
Germany	45.9	3.9	53.0	2.9
France	37.1	-0.7	35.0	-1.2
Brazil	30.6	15.2	41.0	6.0
Italy	27.9	2.5	32.0	2.8
UK	24.6	5.5	32.0	5.4
Pharmerging	242.9	13.6	373.0	9.0
<i>Russia</i>	17.7	12.8	25.0	7.2
<i>India</i>	14.1	14.9	26.0	13.0
World	989.3	5.2	1.295.0	5.5

Our processing of IMS data

¹ IMS, *Global Outlook for Medicines Through 2018*, November 2014. Data at current exchange rates.

The outlook for global growth is supported by the aging population due to world population over 65 years of age representing the more dynamic bracket set to represent about 30% of the total by 2018, by introduction of new specialties and the increasing accessibility of drug therapies. The specialties in greater development concern oncology, diabetes and hepatitis C treatment.

Major Groups in Italy: Sales, Profit and Employees

R&S-Mediobanca has processed an aggregate (TopFarma Italy) that collects the data of 9 from among the major industrial groups in the pharmaceutical industry based in Italy over the 2009-2013 five-year period. In 2013, the market shares for drugs in the “pharmacy” channel were as follows: Menarini (8.1%), Sanofi-Aventis (6.8%), Novartis (5.3%) and Pfizer (5.2%). In the “hospital” channel, the leadership belonged to Novartis (8.8%), followed by Roche (8.2%) and Pfizer Italia (6.8%). Overall (pharmacies and hospitals), the Italian pharmaceutical market was led by Novartis with 7% of the total, followed by Sanofi-Aventis with 6.2%, Pfizer Italia, Bracco with 5.8% and Roche with 5.4%.

The groups surveyed were:

- A. Menarini: incorporated in 1915 in the form of a limited partnership under the control of Archimede Menarini and Edoardo Bruno. In 1975, the majority stake was acquired by Alberto Aleotti, former general manager, whose family still owns the group. This is the largest Italian company with an annual production of about 570 million packages (including 450 million made in factories abroad, principally in Germany and Turkey). It is the ninth European group in “in vitro” diagnostics, with a market share of around 3%. Some self-medication brands are “Vivin C” and “Fastum Gel”;
- Angelini Finanziaria: the group originated in 1919 at the initiative of three partners, Angelini, Ferranti (who retired in 1922) and Magrini (who retired in 1940) and is currently controlled by Francesco Angelini. The company has a portfolio particularly rich in self-medication products: “Moment” (29.3% of the analgesics in the pharmacy channel), “Tantum” (9.3% in oral hygiene) and “Tachipirina” (47.6% of anti-influenza drugs). In joint venture with Procter&Gamble, the group is also a leader in baby diapers with the brand “Pampers” (65% of the market), where it competes with “Lines” of Kimberly-Clark. The company also has a significant business activity in the wine sector (*Tenimenti Angelini* and *Bertani Domains*);
- Bracco: its origins date back to 1927 when Elio Bracco established the Italian stock company E. Merck; the main counter products are “Cebion” (vitamin C), “Xamamina” (motion sickness) and “Collirio Alfa” (eye drops);
- Chiesi Farmaceutici: the origins of the group, controlled by the family of the same name, date back to 1935 when Giacomo Chiesi established a small workshop in Parma. The company specializes in asthma and respiratory products (ranked third in Italy);
- GlaxoSmithKline: led by the British company GlaxoSmithKline Plc, which in 2013 posted revenues of £ 26.5 bn. This is the seventh Italian group. Some particularly well-known self-medication products are: “Rinazina” (nasal decongestant) and “Iodosan” (oral health);

- Pfizer Italia: it is the Italian subsidiary of the US company Pfizer Inc., whose sales were US\$ 51.6 bn in 2013;
- Recordati: its industrial activities began in 1926 when Giovanni Recordati established *Laboratorio Farmacologico Reggiano* in Correggio (Reggio Emilia);
- Sigma-Tau: its origins date back to 1957 on the initiative of Emilio Cavazza and his son Claudio. This is the tenth Italian pharmaceutical group in the channel of “pharmacies” with a market share of 2.3%. The company has recently joined up with Alfa Wasserman, creating AlfaSigma, controlled by the family Golinelli, whose turnover is over € 900 million;
- Sanofi-Aventis: it is led by the French company Sanofi and the Italian operations derive from the combination of those once controlled by the German company Hoechst and by the US company Dow Chemical (Lepetit Group). In 2013, it manufactured 223 million packages and 15 million vaccine vials.

The aggregate of the nine major groups in 2013 reported an aggregate turnover of € 13 bn, a growth of 2.9% over 2012 and 11.9% over 2009. Menarini was the largest group with a turnover of about € 3.3 bn. Those with higher sales growth over 2012 were Recordati (+13.7%), Chiesi (+11.8%) and Angelini (+7.6%). Pfizer Italia (-6.8%), GlaxoSmithKline (-1.4%) and Bracco (-0.6%) were in decline.

Data on foreign sales, albeit incomplete, show strong dynamics. The increases as from 2009 were always in double digits: +63.6% Chiesi, +51.2% Sigma-Tau, +33.3% Recordati, +31.5% Menarini, +15.2% Angelini. GlaxoSmithKline (-22.9%) and Sanofi-Aventis (-5%) were in decline. In 2013, Recordati held the leadership in the increase in foreign sales over 2012, reporting +17.1%.

The trend of earnings was less brilliant. The aggregate was down 3.8% over 2009 and down 4.1% over 2012. Last year, some groups suffered significant drops in net profit, albeit without closing with a loss: the most obvious slumps were those of Menarini (-52.4%), GlaxoSmithKline (-49.8%) and Sigma-Tau (-49.7%). In any case, the aggregate accumulated net income of € 4.3 bn from 2009 (including about 40% held by Sanofi-Aventis with € 940 million and Menarini with € 851 million) against which dividends of € 2.7 bn were paid out (including € 2.4 which may be referred to the foreign Groups Sanofi-Aventis, Pfizer and GlaxoSmithKline), for a payout of over 70%. Three groups, despite having generated profits, distributed no dividends over the past five years: Menarini, Angelini Finanziaria and Sigma-Tau.

Employment decreased in the last year by 1.1% (over 2012) to 39,900 resources; only Recordati and Chiesi increased their workforce, respectively by 8.4% and 0.9%.

The industrial margins and current result of operations, given in % of sales, show a relatively better positioning of four groups: Chiesi (EBIT: 24.9%; current result: 24.4%), Recordati (22.2% and 20.7%), Sanofi-Aventis (18.2% and 18.1%) and Sigma-Tau (11.9% and 10.7%). The same four companies also showed the best combination of labor costs per employee and productivity: 42.7% for Sanofi-Aventis, 48.7% for Chiesi, 51.2% for Recordati and 63.2% for Sigma-Tau. Labor costs per employee ranged from € 91 thousand of GlaxoSmithKline and € 65 thousand of Recordati, while it was markedly lower for Menarini (€ 46 thousand). The best productivity per employee belonged to Sanofi-Aventis (€ 185

thousand), followed by Chiesi (€ 156 thousand) and GlaxoSmithKline and Pfizer (both at € 142 thousand).

Tangible investments, again in the five-year period, touched € 2.1 bn, reporting a steady growth in the period (+54.5%), but with a slump in the last year (-13.4%).

The overall financial structure appears solid due to the low impact of financial debt on equity: 45.5% in 2013, down from 52.7% in 2009. Two groups reported an unbalanced ratio: Pfizer with 460% and Bracco with debts amounting to more than one and a half times capital. The three Italian companies Chiesi, Menarini and Angelini, together with Sanofi-Aventis, have a very solid structure due to the low impact of financial debt (respectively 10.9%, 7.5%, 7.1% and 1.6 %) and the remarkable supply of liquidity of € 1.2 bn.

Table 1 – TopFarma: some indicators (2013)

	Revenues (% change 2013- 12)	EBIT / revenues (%)	ROE	Financial debt / shareholders' equity (%)
Recordati	13.7	22.2	23.5	44.3
Chiesi Farmaceutici	11.8	24.9	27.2	10.9
Angelini Finanziaria	7.6	8.3	2.6	7.1
Sanofi-Aventis	5.4	18.2	39.7	1.6
A. Menarini	2.4	7.6	2.5	7.5
Sigma-Tau	1.3	11.9	5.1	18.2
Bracco	-0.6	5.0	4.6	153.3
GlaxoSmithKline	-1.4	8.6	40.1	54.2
Pfizer Italia	-6.8	7.1	104.0	460.0
Aggregate	2.9	12.6	14.0	45.5

Fig. 1 – TopFarma: % changes in revenues 2013-2009

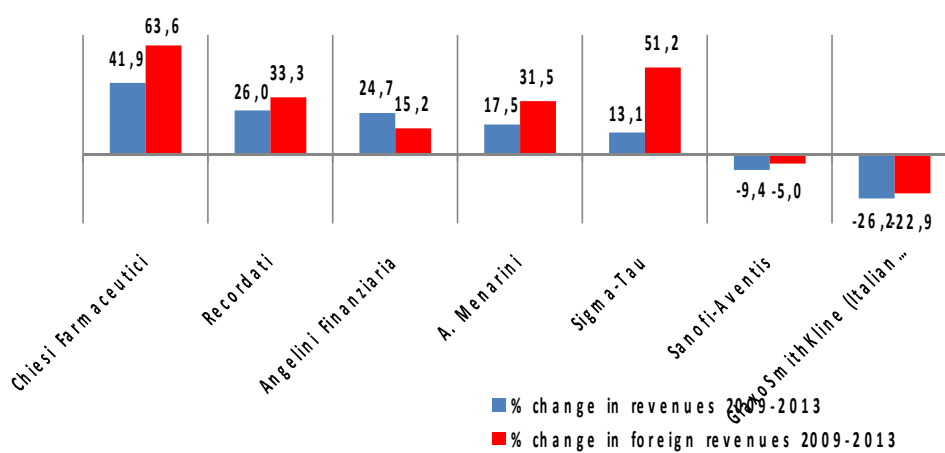


Fig.2 – TopFarma: ROI and ROE in 2013

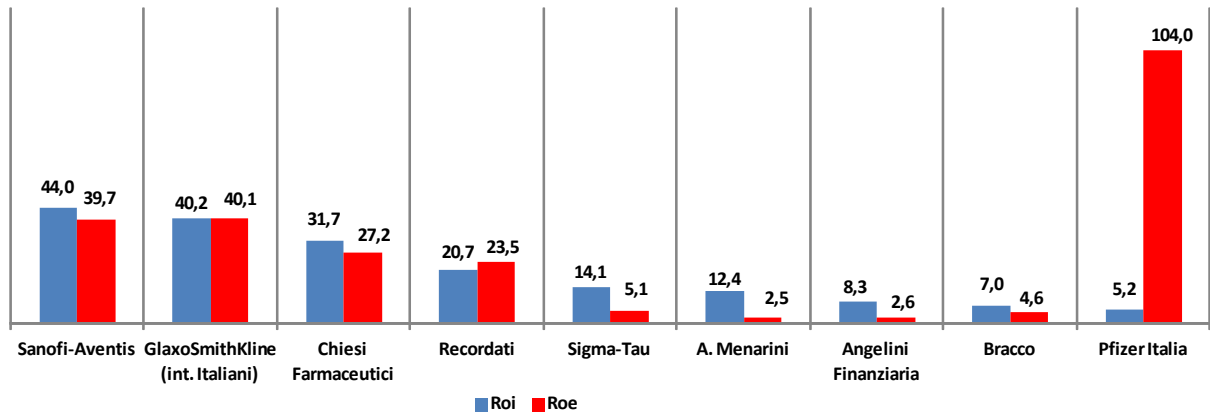


Fig.3 – TopFarma: labor costs, productivity per employee and ULC in 2013

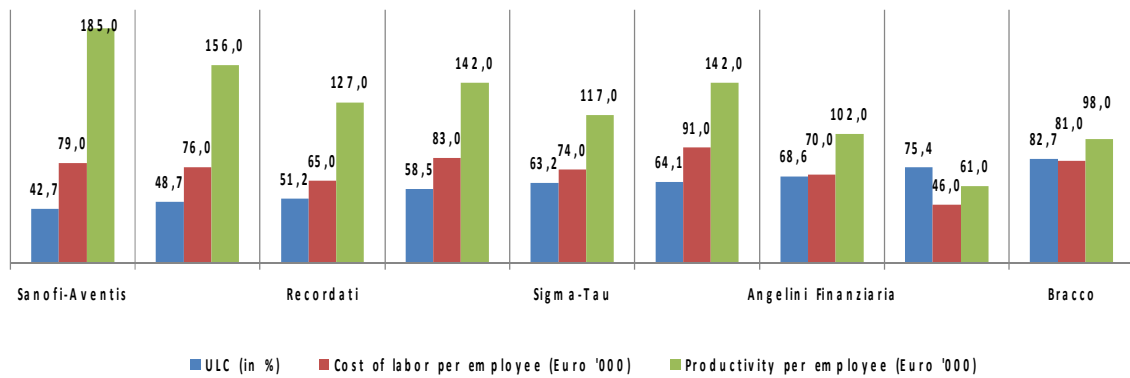


Fig.4 – TopFarma: financial debt in % of equity in 2013

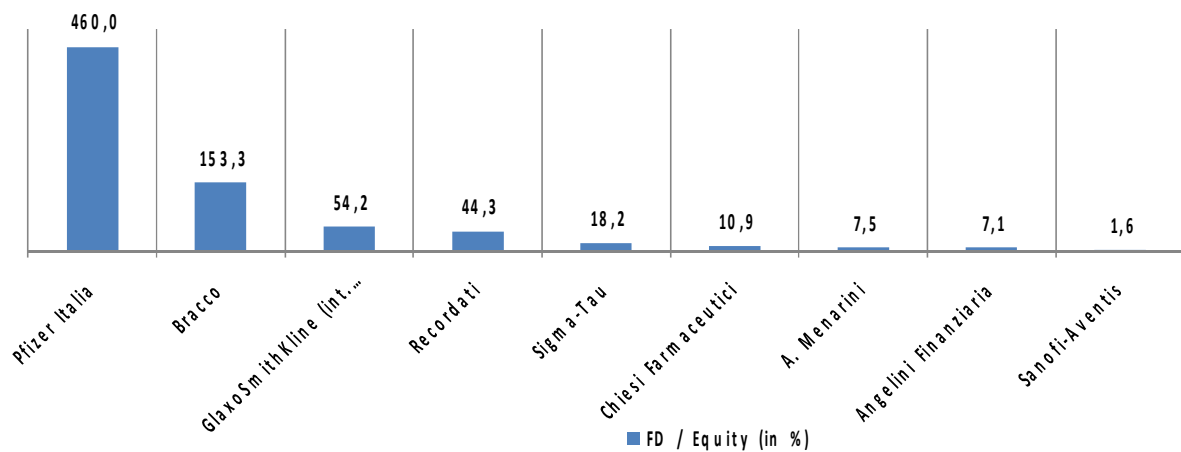


Table 2 – Revenues, net earnings and employees (2009-2013)

Net revenues (thousand Euros)										
	A. Menarini	Angelini Finanziaria	Artsana Group	Bracco	Chiesi Farmaceutici	GlaxoSmithKline (Italian Interest)	Pfizer Italia	Sanofi-Aventis	Sigma-Tau	Total
2009	2.797.230	1.113.031	1.443.574	1.036.723	872.239	1.519.373	1.253.564	1.609.880	616.273	12.261.887
2010	3.030.972	1.164.419	1.467.911	1.103.023	1.015.003	1.408.283	2.052.253	1.644.686	673.187	13.559.737
2011	3.026.642	1.207.828	1.444.879	1.114.843	1.056.932	1.237.532	1.951.078	1.417.750	662.736	13.120.220
2012	3.211.922	1.290.411	1.388.760	1.165.649	1.106.808	1.137.748	1.765.982	1.383.611	688.503	13.139.394
2013	3.288.100	1.388.083	1.205.588	1.159.209	1.237.283	1.121.992	1.646.368	1.458.602	697.195	13.202.430
absolute change (13-0)	490.880	275.052	-237.986	122.486	365.044	-397.381	392.804	-151.278	80.922	940.543
% change (13-09)	17,5	24,7	-16,5	11,8	41,9	-26,2	31,3	-9,4	13,1	7,7
% change (13-12)	2,4	7,6	-13,2	-0,6	11,8	-1,4	-6,8	5,4	1,3	0,5

Net revenues in Italy (thousand Euros)										
	A. Menarini	Angelini Finanziaria	Artsana Group	Bracco	Chiesi Farmaceutici	GlaxoSmithKline (Italian Interest)	Pfizer Italia	Sanofi-Aventis	Sigma-Tau	Total
2009	1.028.000	784.000	765.000	535.000	303.000	1.177.000		1.304.000	488.000	6.384.000
2010	1.063.000	814.000	771.000	549.000	300.000	1.107.000	1.649.000	1.316.000	454.000	6.374.000
2011	1.003.000	847.000	768.000	550.000	300.000	1.008.000	1.605.000	1.151.000	435.000	6.062.000
2012	875.000	906.000	739.000	544.000	289.000	892.000	1.426.000	1.067.000	421.000	5.733.000
2013	962.000	1.009.000	584.000	558.000	306.000	858.000	1.296.000	1.168.000	405.000	5.850.000
absolute change (13-0)	-66.000	225.000	-181.000	23.000	3.000	-319.000	1.296.000	-136.000	-83.000	-534.000
% change (13-09)	-6,4	28,7	-23,7	4,3	1,0	-27,1	#DIV/0!	-10,4	-17,0	-8,7
% change (13-12)	9,9	11,4	-21,0	2,6	5,9	-3,8	-9,1	9,5	-3,8	2,0

Net revenues abroad (thousand Euros)										
	A. Menarini	Angelini Finanziaria	Artsana Group	Bracco	Chiesi Farmaceutici	GlaxoSmithKline (Italian Interest)	Pfizer Italia	Sanofi-Aventis	Sigma-Tau	Total
2009	1.769.230	329.031	678.574	501.723	569.239	342.373		305.880	193.273	4.689.323
2010	1.967.972	350.419	696.911	554.023	715.003	301.283	403.253	328.686	219.187	5.235.454
2011	2.023.642	360.828	676.879	564.843	756.932	229.532	346.078	266.750	227.736	5.223.688
2012	2.336.922	384.411	649.760	621.649	817.808	245.748	339.982	316.611	267.503	5.734.646
2013	2.326.100	379.083	621.588	601.209	931.283	263.992	350.368	290.602	292.195	5.792.438
absolute change (13-0)	556.880	50.052	-56.986	99.486	362.044	-78.381	350.368	-15.278	98.922	1.103.115
% change (13-09)	31,5	15,2	-8,4	19,8	63,6	-22,9	#DIV/0!	-5,0	51,2	16,1
% change (13-12)	-0,5	-1,4	-4,3	-3,3	13,9	7,4	3,1	-8,2	9,2	1,0

EBIT (thousand Euros)										
	A. Menarini	Angelini Finanziaria	Artsana Group	Bracco	Chiesi Farmaceutici	GlaxoSmithKline (Italian Interest)	Pfizer Italia	Sanofi-Aventis	Sigma-Tau	Total
2009	440.474	127.090	55.570	118.920	116.346	280.033	-15.627	295.506	48.905	1.467.217
2010	505.772	108.558	45.588	128.279	169.057	185.997	106.754	344.173	23.473	1.617.651
2011	422.828	94.989	5.089	112.699	188.322	146.161	153.645	287.350	18.205	1.429.288
2012	301.863	109.110	1.911	84.340	199.110	96.369	204.968	270.435	72.190	1.340.296
2013	248.474	114.854	4.484	58.231	307.781	96.772	117.157	265.871	83.148	1.296.772
absolute change (13-0)	-192.000	-12.236	-51.086	-60.689	191.435	-183.261	132.784	-29.635	34.243	-170.445
% change (13-09)	-43,6	-9,6	-91,9	-51,0	164,5	-65,4	-849,7	-10,0	70,0	-11,6
% change (13-12)	-17,7	5,3	134,6	-31,0	54,6	0,4	-42,8	-1,7	15,2	-3,2

Current earnings (thousand Euros)										
	A. Menarini	Angelini Finanziaria	Artsana Group	Bracco	Chiesi Farmaceutici	GlaxoSmithKline (Italian Interest)	Pfizer Italia	Sanofi-Aventis	Sigma-Tau	Totale
2009	444.951	144.322	44.799	91.596	118.784	287.560	-67.959	293.935	40.065	1.398.053
2010	525.943	125.404	42.030	129.570	172.024	190.793	41.538	344.151	20.401	1.591.854
2011	427.367	118.424	-20.123	103.732	193.598	144.297	126.207	289.112	8.002	1.390.616
2012	324.812	135.262	1.304	55.107	205.624	87.950	142.699	268.368	58.415	1.279.541
2013	216.650	136.973	-10.036	29.998	301.937	92.298	61.664	263.783	74.300	1.167.567
absolute change (13-0)	-228.301	-7.349	-54.835	-61.598	183.153	-195.262	129.623	-30.152	34.235	-230.486
% change (13-09)	-51,3	-5,1	-122,4	-67,2	154,2	-67,9	-190,7	-10,3	85,4	-16,5
% change (13-12)	-33,3	1,3	-869,6	-45,6	46,8	4,9	-56,8	-1,7	27,2	-8,8

Net profit (thousand Euros)										
	A. Menarini	Angelini Finanziaria	Artsana Group	Bracco	Chiesi Farmaceutici	GlaxoSmithKline (Italian Interest)	Pfizer Italia	Sanofi-Aventis	Sigma-Tau	Totale
2009	250.635	114.974	8.350	49.233	75.385	192.355	-103.116	198.067	21.783	807.666
2010	231.533	12.971	2.595	78.094	96.854	114.296	1.919	254.306	16.344	808.912
2011	215.582	16.537	-41.809	73.158	120.850	84.903	-35.775	120.103	-20.205	543.344
2012	103.986	59.597	-26.953	-8.010	130.971	92.369	172.246	194.773	48.730	767.709
2013	49.475	38.900	-2.537	14.219	183.752	46.353	212.514	172.316	24.511	739.503
absolute change (13-0)	-201.160	-76.074	-10.887	-35.014	108.367	-146.002	315.630	-25.751	2.728	-68.163
% change (13-09)	-80,3	-66,2	-130,4	-71,1	143,8	-75,9	-306,1	-13,0	12,5	-8,4
% change (13-12)	-52,4	-34,7	-90,6	-277,5	40,3	-49,8	23,4	-11,5	-49,7	-3,7

Employees (average number)										
	A. Menarini	Angelini Finanziaria	Artsana Group	Bracco	Chiesi Farmaceutici	GlaxoSmithKline (Italian Interest)	Pfizer Italia	Sanofi-Aventis	Sigma-Tau	Total
2009	12.675	3.221	7.307	2.756	3.389	2.968	1.859	3.029	2.290	39.494
2010	12.828	3.227	7.352	2.844	3.636	2.564	3.478	2.966	2.426	41.321
2011	13.568	3.457	7.406	3.198	3.776	2.053	3.342	2.949	2.379	42.128
2012	16.645	3.694	6.955	3.388	3.822	1.954	2.861	2.691	2.169	44.179
2013	16.622	3.645	6.465	3.365	3.858	1.897	2.724	2.490	1.924	42.990
absolute change (13-0)	3.947	424	-842	609	469	-1.071	865	-539	-366	3.496
% change (13-09)	31,1	13,2	-11,5	22,1	13,8	-36,1	46,5	-17,8	-16,0	8,9
% change (13-12)	-0,1	-1,3	-7,0	-0,7	0,9	-2,9	-4,8	-7,5	-11,3	-2,7

Source: R&S-Mediobanca

