



PRODUCTION OF GENERICS

PROJECT

There is provided a project on launching production of finished pharmaceutical products (FPP) generics based on imported substances.

Why generics:

- According to international company IHS, by 2016 expenditures for generics in developing countries are projected to increase **from 57% to 65%** of total expenditures for FPP.
- There has been a **"patent gap"** during 2011-2015: patent protection for 35 pharmaceutical "blockbusters" (total sales **USD 150 bn**) expires.
- Key market is the Customs Union market (Belarus, Russia, Kazakhstan) with a size of **USD 32 bn**. Russia is the **3rd** rapid growing and among **top 7** largest pharmaceutical markets in the world.
- Import share of FPP market in the Customs Union is **70%**, annual average growth rate of FPP imports – **14%**.
- There are more than **8000** qualified specialists employed in pharmaceutical industry in Belarus, labor cost is the lowest among the Customs Union members.
- Production of generics is most riskfree segment of pharma market, allowing to achieve up to **40%** profitability with comparatively low investments (**USD 10-120 mn**).

MARKETS

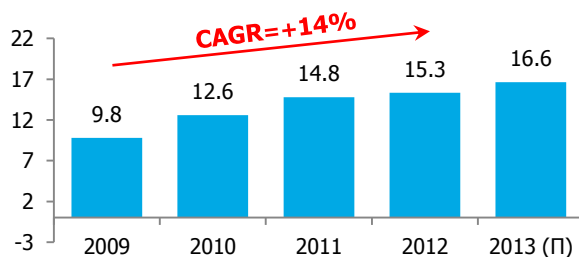
Customs Union countries:

- Possibility of duty-free access to the **USD 32 bn Customs Union** market.
- CEA's (Common Economic Area) adoption of mutual recognition of marketing authorization (if there is a GMP certificate) is expected to be adopted in 2014.

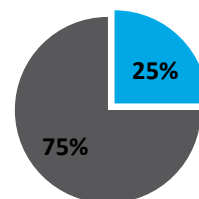
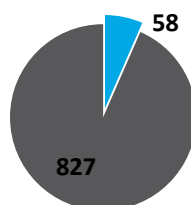
Internal market of Belarus:

- Large share of import on pharma market in Belarus. Pharmaceuticals imports in 2012 totaled **USD 0,64 bn**, annual average growth rate is **12%**. Share of imported pharmaceuticals on the domestic market is **70%**.
- Consumption of pharmaceuticals per capita in Belarus (**USD 85**) is lower than in Russia (app. **USD 150**).
- Internal market size of Belarus in 2012 totaled **USD 0,86 bn**.

Imports of major FPP in the Customs Union, USD bn



Market structure of pharmaceutical substances in Belarus and FPP market structure in Belarus and Russia (money terms)



■ Substances made in Belarus
■ Imported substances

■ Domestic production ■ Import

MARKET OPPORTUNITIES

Global opportunities:

- There has been a **"patent gap"** during 2011-2015: patent protection for 35 pharmaceutical "blockbusters" (total sales **USD 150 bn**) expires.
- Production of FPP-generics is more profitable than active pharmaceutical substances and less risky compared with production and development of original pharmaceuticals.

Local opportunities:

- Russia is the **3rd** rapid growing and among **top 7** largest pharmaceutical markets in the world.
- Growing state expenditures for health-care system: share of hospital markets of Russia and Belarus in money terms reaches **25%**, annual average growth rate is **12%**.
- Share of households having discounts for pharmaceuticals purchase is **12%**.
- Share of FPP to the value of more than USD 10 in the pharma sales structure in Belarus increased over the last 4 years **from 21% to 28%**.
- Government of the Customs Union countries is pursuing import substitution policy and national security protection in the pharma market, planning to increase domestic production of FPP **from 25% to 50%** by 2016.
- Russia intends to limit participation of foreign producers, except for Belarusian, in government purchases of pharmaceuticals in 2014.

Attractive segments:

- Antibacterial agents, accounting for **83%** of total pharma import, are top selling pharmaceuticals on the Belarusian market.
- "Digestive tract and metabolism" segment, accounting for **20%** of pharma import (**USD 2,6 bn**), is leading on Russian market.

INVESTMENT OPPORTUNITIES

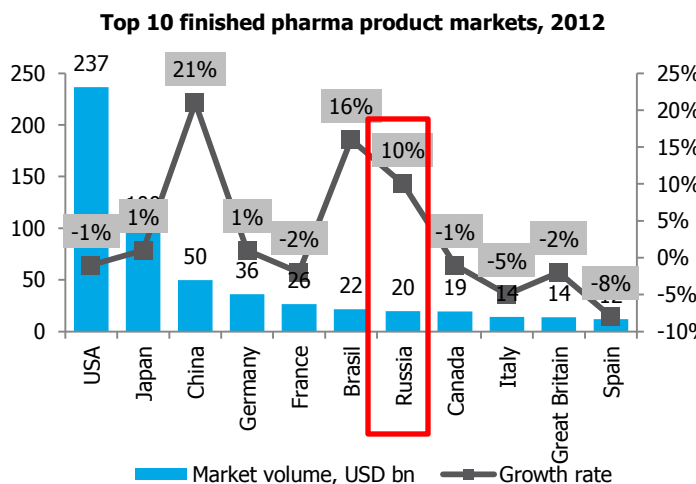
- Capex for the project implementation totals **USD 10-120 mn** on average.
- Profitability of generics production depends on the product's stand and totals **15-25%** on average, reaching sometimes **40%**.
- IRR of the projects on FPP production varies between **15-30%**, depending on the product's success in the market.

POTENTIAL INVESTORS

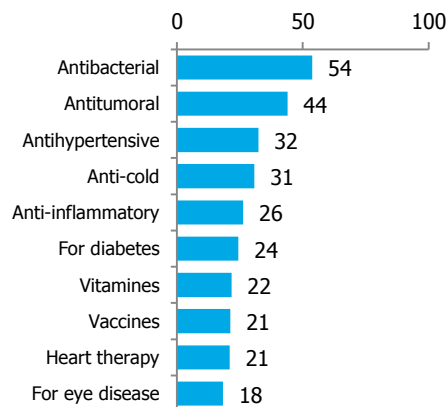
Chinese and Indian substances and finished pharma product producers, aimed at locating their production on the Customs Union market.

Original drug producers intending to enter generics market.

Special purpose venture funds (in case of technologically difficult and innovative projects.)



Top 10 pharmaceutical product groups on the pharma market in Belarus in 2012, USD mn



Top 5 segments of Russian pharma market in 2012, USD mn

