2015 life sciences outlook Uruguay

Uruguay's pharmaceutical market = $510 million in 2013

Growth rate = 12 percent annually between 2003 and 2013

Pharmaceutical sales in Uruguay have increased significantly in recent years, amid an expanding economy and rising salaries. The country's pharmaceutical market saw a compound annual growth rate of 12 percent between 2003 and 2013, reaching $510 million[1]. Concurrently, exports rose to $130 million[2]. The most important export markets are in Latin America, but the level of concentration is quite low—none of the most important markets represents even 20 percent of total exports—and France and South Africa are included among the top-ten buyers. The primary domestic sales channels are hospital plans, with a combined share of 43 percent; retail pharmacies (the most profitable channel), with a third of unit sales; and the public health administration at 25 percent[3]. The main government stakeholder is the Public Health Ministry, which is in charge of assuring overall drug quality and approving the purchase of medicines for the public health system[4].

Uruguay's expense in pharmaceuticals per capita is among the highest in Latin America, second only to Argentina.

The government's role in pharmaceutical commercialization extends beyond market share. The drugs available through hospital plans require a consumer copayment (the hospital funds the remainder of the cost), which is set by the government. In 2005, Uruguay's government lowered that copayment and has since raised it only to address inflation. This has exerted downward pressure on prices – in fact, retail prices of most common medicines are much lower now than ten years ago. However, the increase in demand has offset this price decrease and Uruguay's average expense in pharmaceuticals per capita is among the highest in Latin America, second only to Argentina.

Among the issues facing Uruguay's pharmaceutical sector in 2015[5] are:

Increasing competition—Uruguay's domestic market continues to be the main source of income for most local pharmaceutical companies. However, the local market is quite small in relation to the number of companies operating in it, and the barriers to entry are perceived by some to be much lower than in export markets; this puts local companies at a disadvantage compared to foreign competitors operating in Uruguay. To grow, local companies likely will have to turn to exports. This is becoming increasingly difficult, though, because production costs are very high when measured in dollars, bureaucratic procedures contribute to costs, and Uruguay lacks a National Regulatory Agency that is certified and internationally recognized

Need for innovation—The pursuit of innovation through the development of new products, business models, management processes, and packaging is a primary strategy

1 CEFA-ALN Yearbook Statistics (2014)
2 Central Bank of Uruguay – Official Foreign Trade Statistics (2014)
3 CEFA-ALN Yearbook Statistics (2014)
4 Uruguay XXI (2011)
5 As identified through Deloitte interviews with CEOs of locally operated pharmaceutical companies (20 percent of Uruguay's total pharmaceutical companies). The interviewees represented domestic and regional companies, subsidiaries of international companies, and life sciences companies related to human and animal health.

for Uruguay's pharmaceutical companies seeking to grow revenue and market share. The government is supporting near- and long-term sector innovation under the auspices of an Innovation Agency and a public agency to foster exports of goods and services.

Collaboration—In the last few years there has been a spurt of life sciences M&A activity, including traditional acquisitions and collaborative ventures such as co-marketing, co-promotion, and licensing agreements. Operations in Uruguay have been impacted by that global trend and there is a niche where the country could gain importance: Shared Services Center. Uruguay is already home to Shared Service Centers for companies in numerous industries; international life sciences companies looking to expand their presence in Latin America are evaluating similar opportunities in the country.

Regulatory challenges—As the global life sciences regulatory environment becomes more restrictive, regulations in Uruguay are considered by many to be weak and outdated. There are also issues with the level of enforcement by local authorities and approval delays for the latest technologies and products. Many local pharmaceutical company CEOs we interviewed in 2104 felt strongly that Uruguay should have a drug evaluation agency that is independent from the Ministry and that it be internationally recognized. Currently, the World Health Organization (WHO) is auditing local agencies in Argentina, Brazil, Mexico, Colombia and Cuba. These certifications will allow agencies to recognize each other's decisions, easing international trade among those countries. In this regard, it should be noted that in January 2015 the Government approved a decree regarding biotechnological medicines that regulates copies and biosimilars. According to the Health Ministry, this is the first step towards revamping regulations that will take place in the following five years. The Ministry has not decided yet if there will be a separate drug evaluation agency.

Health systems under pressure—As described earlier, hospital health plans are the primary local clients for Uruguay's pharmaceutical industry. In the last few years, hospitals have faced increasing costs and surging demand. However, they often do not have the ability to adjust prices because most of Uruguay's citizens have health coverage under a public insurance system. As a result, some hospitals are under financial pressure and purchasing drugs based primarily on their price.

Profitability—Most of the profitability challenges for life sciences companies operating in Uruguay are domestic in nature. After a decade of very strong economic growth, there is consensus that Uruguay is currently operating in a full-employment context, which is impacting life sciences companies in different ways. On the one hand, salaries have been growing steadily; lately, the rises have outpaced productivity gains. On the other hand, there is a widespread shortage of human resources, which is especially pronounced in some areas of specialization. The difficulties in filling open positions have turned the balance of power in favor of unions, which have increased their demands amid a perception of tacit government approval. Recently, labor conflicts in one laboratory resulted in an industry-wide strike that prevented some companies from completing export orders.

Logistics can also be expensive. Geographically speaking, Uruguay is well-situated to be a pharmaceutical distribution center, as it is near the main consumption centers of Brazil and Argentina and is more "business-friendly" than both of them. However, airline freight connections, airport services, and customs brokers are somewhat lacking compared to other markets, causing higher costs and difficulties in responding rapidly to client requests.

Looking at 2015 and beyond, Uruguay's domestic pharmaceutical market is expected to continue demonstrating solid growth. Following a decade of very strong economic expansion, the country's economy has decelerated but remains on the rise, decoupled from other countries in the region. Against this background, salaries should keep rising and employment should remain at historically high levels. In addition, more people are becoming covered by hospital plans and the public insurance program is adding new treatments—for example, some fertility treatments are now partially funded by insurance—which should generate increased demand. Future pharmaceutical sector growth will also depend on the performance of export markets, which currently represent 20 percent of total revenues. Although some of the main export destinations are experiencing lackluster growth, the Uruguayan peso is anticipated to depreciate in the medium term, thereby favoring exports.

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To learn more about the global trends and issues impacting the life sciences sector, please visit our 2015 global life sciences sector outlook at www.deloitte.com/2015lifesciencesoutlook.

Sources
The figures cited in the "Local industry overview" were pulled from official and industry sources. Deloitte Uruguay reviews some of these figures on a yearly basis for the local pharmaceutical industry report.

Official sources
- Central Bank of Uruguay – Official Foreign Trade Statistics (2014)
- Public Health Ministry – "Perfil Farmacéutico Nacional" (2012)
- Uruguay XXI (Official Invest and Export Promotion Agency)
  – "La industria farmacéutica en Uruguay" (2011)
  – "Caracterización y propuestas de mejora para la investigación clínica en Uruguay" (2014)

Industry sources
- CEFA-ALN Yearbook Statistics (2014). CEFA and ALN are the two industry associations that exist in Uruguay and that represent laboratories with local production and importers, respectively

The "**Survey Key Findings: Trends**" information was gathered first-hand in interviews with CEOs of companies that operate locally.