Financing the localization of pharmaceutical production in Russia

Key challenges

Saint-Petersburg, 18th of June
Major part of the growth in pharmaceutical market is expected to come from local production

**Russian pharmaceutical market in 2013-2020, bln. RUB**

- **2013**
  - Local production: 820, 27%
  - Import: 27%

- **2020**
  - Local production: 1498, 50%
  - Import: 50%

- **Growth of local production**: +240%
- **Growth of import**: +25%

**Sources:**
ITAR TASS, Russian Federal target programme «Development of the pharmaceutical and medical industry of the Russian Federation for 2013-2020», Prime Minister of Russia Dmitry Medvedev, Deputy Head of Ministry of industry and trade Sergey Tsyb

- Russian Federal target program «Development of the pharmaceutical and medical industry of the Russian Federation for 2013-2020» manifests that the share of local production in Russian pharmaceutical market will be 50% in monetary terms by 2020
- Share of the Russian-manufactured medicines belonging to the list of strategic medicines and vitally important medicines should reach 90% by 2020

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Capital requirement for the localized projects is growing as local value creation becomes deeper

Selected examples of direct investments in pharmaceutical manufacturing facilities in Russia, mln. USD

- All selected examples are pharmaceutical projects that combine both production and packaging
- Construction of most projects started in 2010-2012, while indicated projects A and B are at the planning stage and Bioran is at the designing stage

Sources: PMLiVE, INFOLine, Novartis, Novo Nordisk, Yaroslavi region internet portal, Pharm vestnik internet portal, Remedium internet portal, Regnum, Medpred internet portal
Project financiers require a strong business plan with a particular focus on the market part

Business plan: Construction of blood plasma production facility

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Sources: Deloitte knowledge database

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Degree of comfort on the top line drives the probability of fund raising

**Key area**

- Number of patients and share of solvent demand
- Route to market
- Legislation
- State purchases and support
- Relative project competitiveness and market share

**Analysis**

- Disease development
- Detection rate and time
- Purchasing power
- Insurance penetration and coverage

- Distribution model and budget
- Promotion mechanisms

- Price regulation of drugs from the «vital» list
- Tender policies and support of local producers
- Anti-monopoly regulation

- Purchases of medicines for welfare beneficiaries (mainly with rare and «expensive» diseases)
- Hospital purchases

- Import substitution potential
- Window of opportunities (demand – supply balance)
- Product performance on KPC relative to competition

**Key questions to be answered**

- **Real number of patients; share of patients who can afford the product?**

- **How will the product reach each individual solvent customer?**

- **Impact of legislation on market volume (volume and value) and competitiveness of local producers?**

- **Volume of state purchases and supplier requirements?**

- **Product and business model competitiveness, sales volume and market share?**
It is crucial to have a well supported business case – be prepared for a long list of tough questions from banks

Some questions from VEB to the business plan of one of our clients

- **Market attractiveness**: “If the market is as attractive as you are showing, why have there been only little activity of global champions”
- **Market drivers**: “How much investment is needed to get to the increase in detection rate shown in your market development plan and how likely is that this investment will happen?”
- **State purchases**: “How reliable are the volumes of state purchases in your sales plan? Are there any contractual arrangements backing this up?”
- **Hospital segment**: “How much money in the budgets of hospitals is allocated for technical re-equipment to increase detection rate? Is it enough?”
- **Hospital segment**: “What concrete measures are you planning to take to promote direct sales to patients within the hospital segment?”
- ...
- **Pricing**: “What are the reasons for you to be able to offer lower prices? What if importers will also decrease the prices?”
- **Distribution**: “What will be the distribution model and in particular will the product replace the current offering of distributors or will just extend the current portfolio? What budget is allocated for each distributor to promote the product?”
- **Product**: “What analysis have you made to conclude on project advantages? Have you performed focus groups with patients and doctors? What was the size of the focus group?”
- **Risks**: “Please provide a scenario which assumes new market entry of Competitor A”
Our approach and analysis helps to objectivize and substantiate the business case for the financing banks.

Key areas

Demand assessment and route to market

Supply base and capacity development

Project competitiveness and potential market share

Revenue assumptions

Some key analysis steps

Benchmarking with more mature markets
Demand scenario modeling

Market entry and capacity expansion plan analysis
Window of opportunity identification

Identification of key market drivers
Identification of potential substitutes

Identification of key success factors (CSF)
Assessing potential sales and market share

Benchmarking of project performance against CSF

Development of detailed sales plans

Sources: Deloitte knowledge database

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