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Financing the localization of pharmaceutical production in Russia

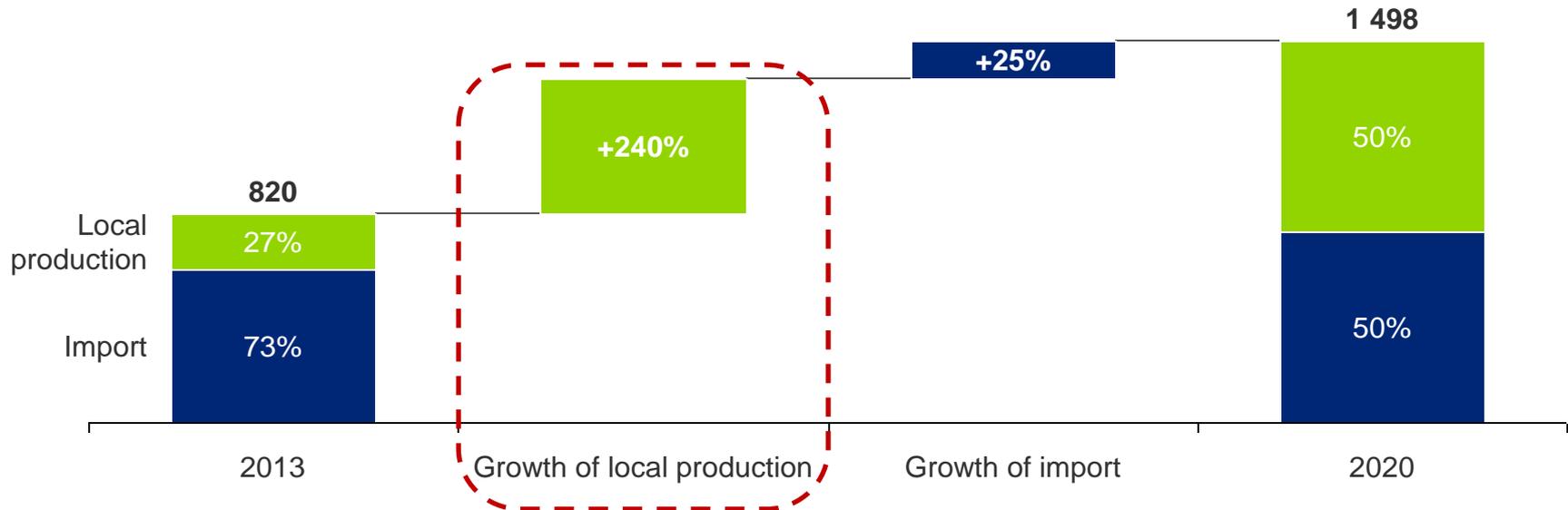
Key challenges

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

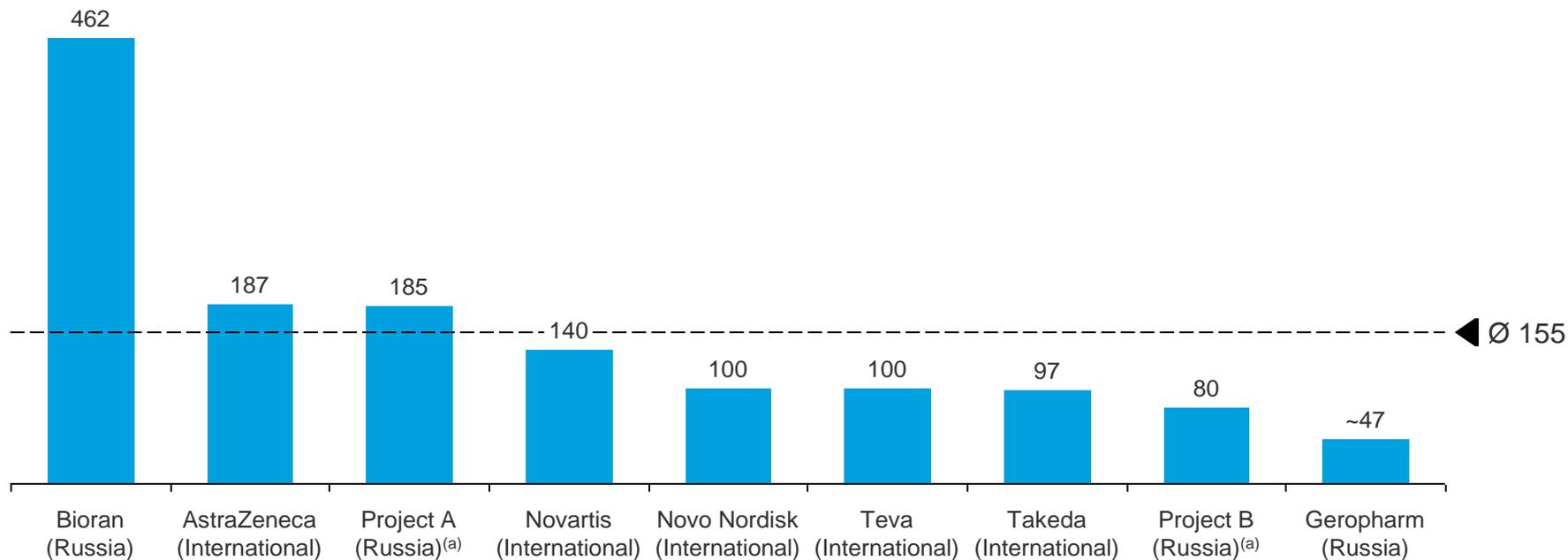


- Russian Federal target program «Development of the pharmaceutical and medical industry of the Russian Federation for 2013-2020» manifests that the share of local production in Russian pharmaceutical market will be 50% in monetary terms by 2020
- Share of the Russian-manufactured medicines belonging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

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

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, Yaroslavl region internet portal, Pharm vestnik internet portal, Remedium internet portal, Regnum, Medpred internet portal

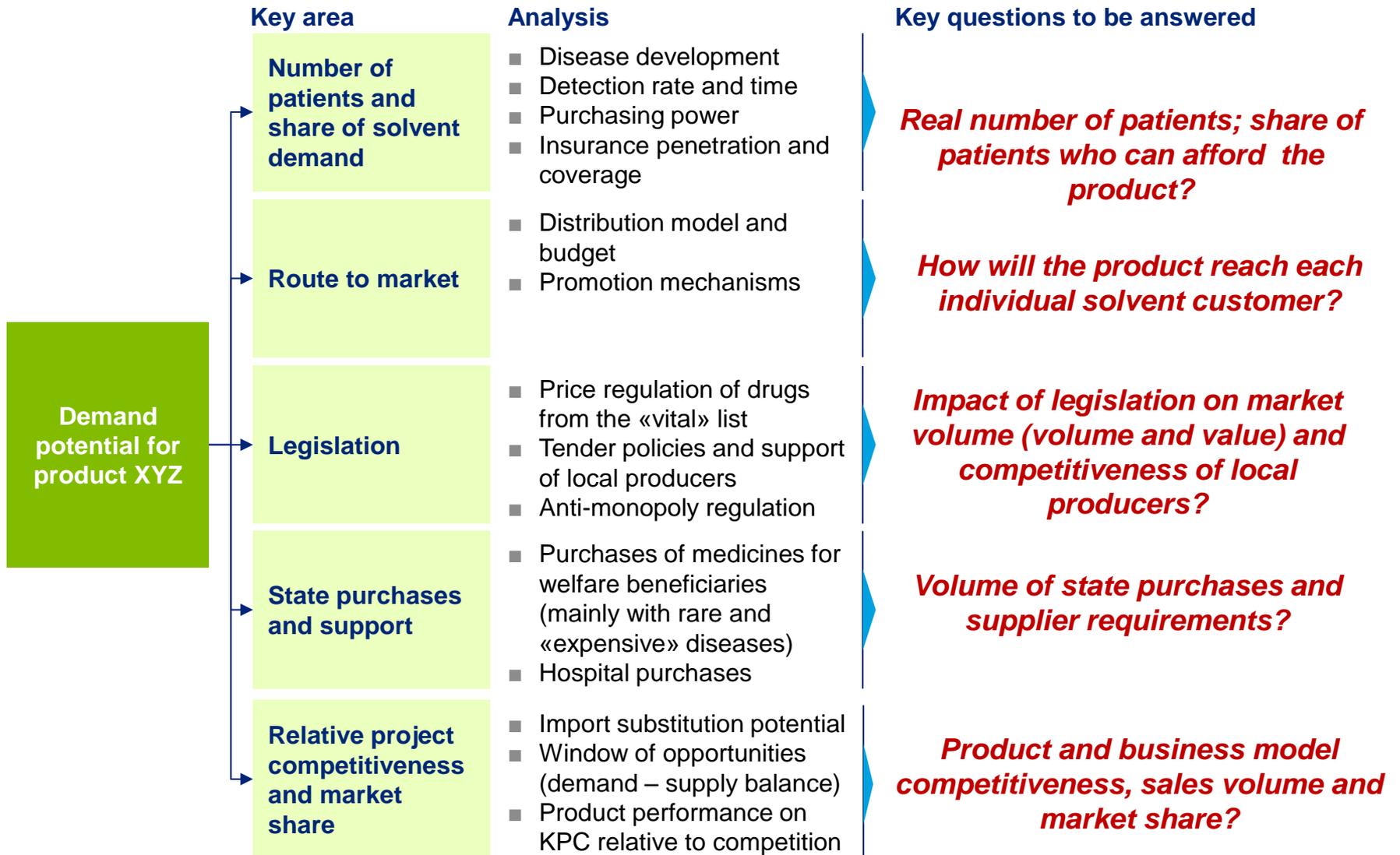
Project financiers require a strong business plan with a particular focus on the market part

Business plan: Construction of blood plasma production facility

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Sources: Deloitte knowledge database

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



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 rete? 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

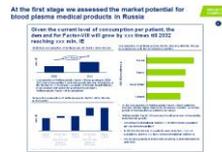
Supply base and capacity development

Project competitiveness and potential market share

Revenue assumptions

Some key analysis steps

Benchmarking with more mature markets



Identification of key market drivers



Demand scenario modeling



Market entry and capacity expansion plan analysis



Identification of potential substitutes



Window of opportunity identification



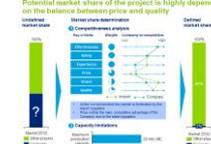
Identification of key success factors (CSF)



Benchmarking of project performance against CSF



Assessing potential sales and market share



Development of detailed sales plans



Financial modeling



Sources: Deloitte knowledge database

THANK YOU

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