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Harnessing Growth of Latam OTC Markets:

Key Drivers and Trends in Brazil and Mexico

Introduction

Although the Latin American GDP growth engine has slowed, its over-the-counter (OTC) pharmaceutical market is registering stellar growth fueled by "pharmerging" fundamentals and long-awaited regulatory changes that are creating a wealth of new opportunities.

Kline Research, in partnership with IRi, provides an in-depth look at the key data and trends for Brazil and Mexico, together accounting for 76% of the region's USD 11 billion OTC market.

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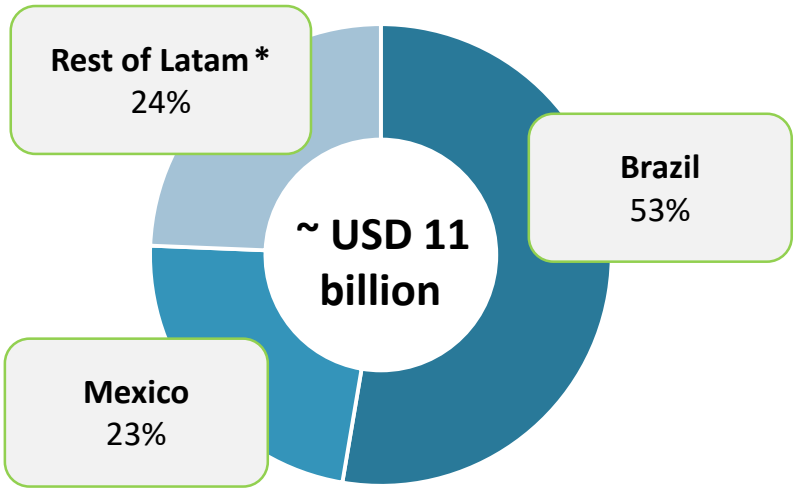
Key Latam Markets: by the Numbers

The total market for over-the-counter pharmaceutical products in Latin America reached USD 11 billion in 2014. The region is dominated by Brazil, currently the fifth largest OTC market in the world, boasting 53% of the region's total sales. Mexico follows with a 23% share of sales in the region and the remaining countries account for 24%. [1]

As in other emerging markets, the Latin American OTC segment accounts for a substantially higher proportion of the larger pharmaceutical sector than prescription medications, in both units and value. While in mature markets, such as North America and Europe, OTCs account for only 9% of pharmaceutical sales, OTCs account for 27% of total pharma sales in Brazil. This highlights more limited public health coverage of prescription medications that causes consumers to rely more heavily on OTCs. Even with a much higher share of the market, the OTC category's growth in Latin America continues to outpace that of branded prescription drugs by a wide margin.

Latin American OTC Markets: Country Breakdown (2014)



Source: Based on compiled data from multiple sources.
*Rest of Latam includes Colombia, Argentina, Chile, Peru, Ecuador, Bolivia, Paraguay, and Uruguay.

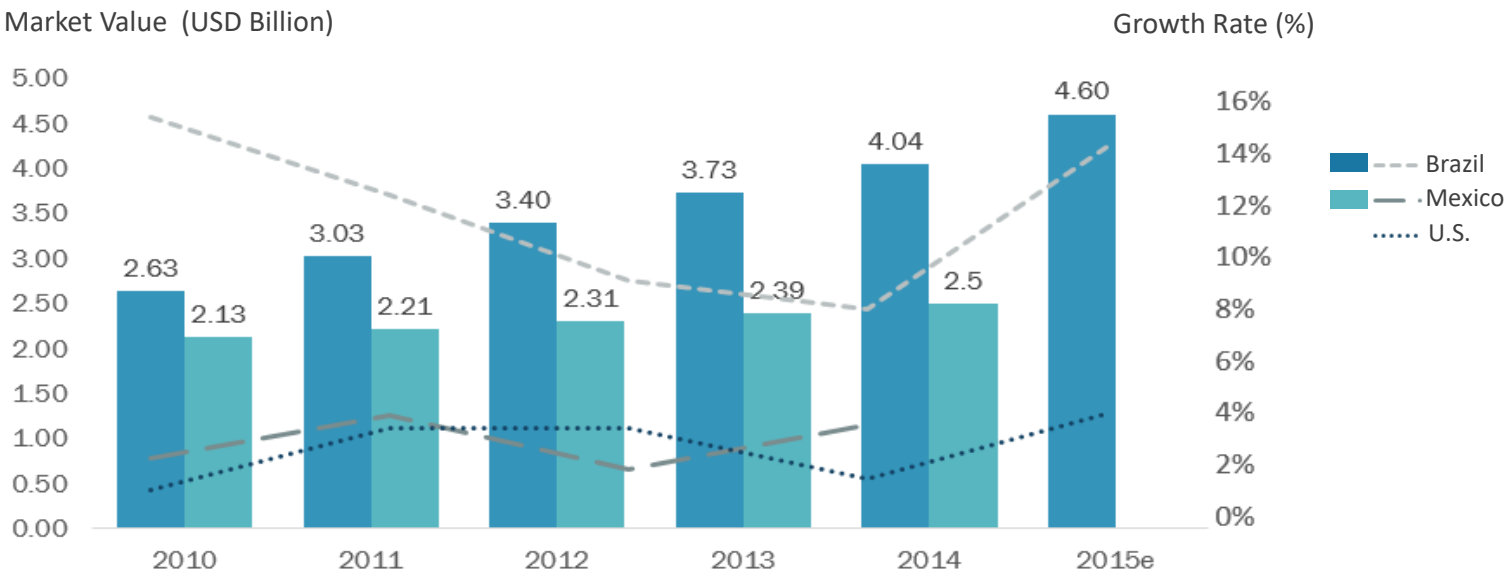
Despite the current recession, Brazil OTC sales outperform prescription drug sales and general retail growth. Brazilian OTC drug sales have attained double-digit growth rates since 2003 and outperformed prescription drug sales growth from 2009-2013. During this period, prescription drugs in Brazil registered CAGR of 13%, while OTC drugs expanded at 18%.

In 2014, Brazil posted marginal GDP growth that became an economic contraction in 2015, accompanied by increased unemployment at a time of high household indebtedness. Consumer confidence hit its lowest level since 2005, and Brazil's retail sector registered only 5% growth for 2015. Nevertheless, the Brazilian OTC market continued to perform well, expanding by as much as 14%. This is due to both volume growth, as unit sales grew past the 1 billion mark (from 930 million in 2014), as well as price increases associated with the devaluation of the Brazilian Real.

Modest Mexican growth outpaces its North American neighbors. The Mexican OTC pharmaceuticals market reached USD 2.5 billion in 2014. From 2010-2014, the Mexican OTC market registered a CAGR of 4.0%. Although growth of the Mexican OTC market was more modest than in Brazil, the sector still outperformed its North American counterparts, where the U.S. and Canada registered CAGRs of 2.6% and 3.0%, respectively, during the same period.

OTC product category breakdown. Cough and cold remedies are the top selling OTC categories in both Brazil and Mexico accounting for 21% and 28% of the market, respectively. While the relatively cooler climate of Mexico entices consumers to purchase more cough/cold products, wellness-focused Brazilians spend more on vitamins and minerals. A Mexican pharmacy chain executive points out that the sale of certain OTC drug categories is highly seasonal: "*During the winter months, there is an increase in the sale of OTC cold remedies while in the summer* months *this is substituted by OTC antifungal products*."

Key Latam OTC Markets: Brazil and Mexico by the Numbers



Note: Based on constant exchange rate (2015 average); complied from multiple data sources.
U.S. growth rates are sourced to IRI; OTC industry universe definition used here excludes oral care products.

From Lab to Casa: Players, Retailers, and Influencers

Key OTC players and brands.
Established big pharma multinationals (MNCs) have a long history of a sales and production presence in Latin America. For example, Bayer's start in the region dates back 110 years, and today Bayer is one of the largest players with important production sites in Mexico, El Salvador, Colombia, Brazil, and Argentina.

Top OTC Brands by Volume

1. Aspirina (Bayer)
2. Tempra (Bristol-Myers Squibb)
3. Picot (Bristol-Myers Squibb)
4. Suerox (Genommalab)
5. Vitacilina (Taisho)
6. Alka Seltzer (Bayer)

1. Dorflex (Sanofi)
2. Salonpas (Hisamitsu)
3. Dipirona sodica (Hypermarcas)
4. Buscopan (Boehringer-Ingelheim)
5. Dipimed (Medquimica)
6. Histamin (Hypermarcas)
7. Vicks (Procter & Gamble)

Source: GHI analysis based on data from local industry publications.

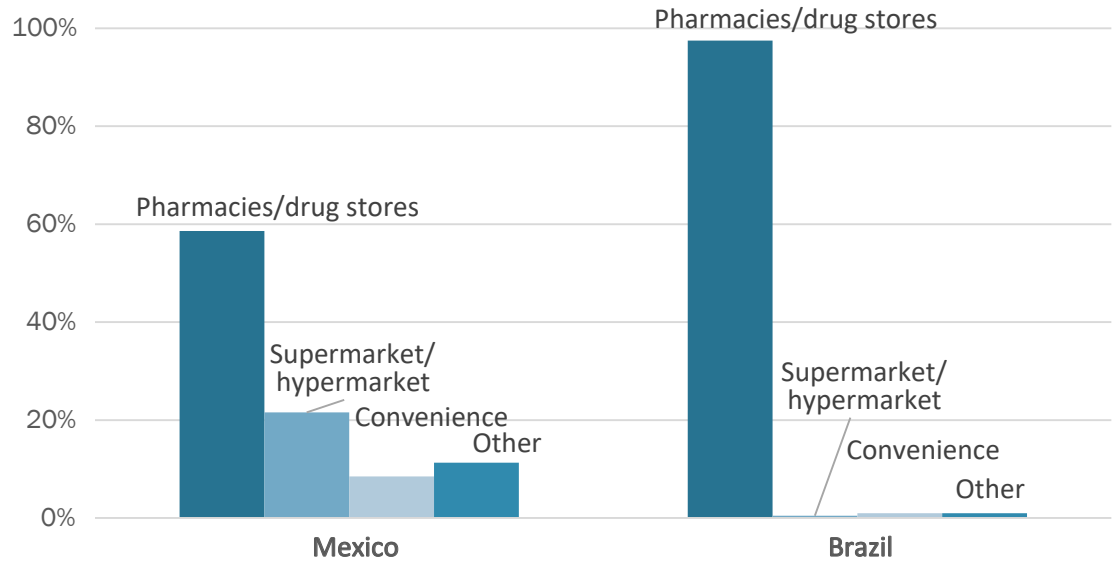
Although MNCs have led the industry towards consolidation, the OTC drug market remains fragmented. In Brazil, the four largest OTC players comprise roughly a third of the marketplace. Local player Hypermarcas took the leading share in Brazil (8%) in 2014 due to heavy investments in advertising, running up to 20 television and radio spots for OTC mainstays, such as Benegrip for flu relief and combination antacid/analgesic Engov, a popular hangover remedy. The top OTC brands in terms of units sold are controlled by a diverse set of Brazilian, European, and even Japanese players. The leading brands in Mexico are dominated by multinationals, topped by popular pain reliever products from Bayer and Bristol-Myers Squibb. These companies are facing growing competition from store brands, often available at a large discount and offering additional benefits from pharmacy rewards programs.

Investing in regional growth. Multinationals looked to Latin America for growth during the recent economic slowdown in the U.S. and then Europe. In 2013, Reckitt Benckiser became the number six OTC player in Mexico by acquiring leading OTC brands from Bristol-Myers Squibb. Merck reported a 55% increase in profits in 2013 as a result of introducing two new products into the Mexican market. Mexico's own Genommalab, virtually unknown to the OTC market, pursued a series of aggressive acquisitions in the mid-2000s to revive mismanaged brands, driving its sales up by 76% from 2010 to 2015.

In Brazil, Hypermarcas acquired OTC player Mentecorp in 2011 for BRL 2.5 billion, gaining major brands like Polaramine (antihistamine) and Coristina (anti-flu), and launched a series of OTC products in 2014 that included analgesics, obesity-control medication, and vitamin categories. In 2016, Johnson & Johnson acquired Hipogos, the leading brand of diaper rash cream, from Procter & Gamble.

OTC retail channels by the numbers. The pharmacies/drug stores channel continues to be the primary and sometimes exclusive retail channel for OTCs in Latin America. Current Brazilian regulation restricts the sale of OTCs to licensed pharmacies, although there are a handful of small-quantity exceptions that can be found in convenience stores and other establishments. Mexico's OTC retail is also concentrated in this category (59%), but also shared with supermarkets/hypermarkets (22%) and convenience stores (9%), among others.

OTC Distribution Breakdown (% of retail value)



Sources: Based on compiled data from multiple sources and local interviews.

The march of the modern drug store chain. In 2013, the five largest drug store chains accounted for 30% of total drug sales in Brazil and 5% of retail outlets – these chains have continued to expand aggressively amidst Brazil's economic downturn.[2] One such chain, RaiaDrogasil, opened 176 pharmacies from April 2015 to April 2016, and plans to open an additional 195 stores in 2017.[3] The retailer reported its OTC sales growth outpaced its prescription drugs and health/beauty products, expanding 22% over 2015. These chains are highly concentrated in the more developed southeast and southern regions, with plenty of penetration opportunities still to be found across the remainder of the country where independent pharmacies are more common.

The expansion of modern drug store chains in Mexico is also changing the way OTCs and pharmaceuticals are being distributed. Of the country's 17,000 pharmacies, over 60% are now part of a chain (up from 50% in 2007).[4] The largest chains are Farmacias Similares (with over 5,000 stores), Farmacias Guadalajara (1,400), Farmacias del Ahorro (1,200), and Farmacias Benavides (1,000).[4] FEMSA, the largest Coca-Cola bottler in Mexico and owner of Oxxo convenience stores, recently began expanding in the pharmacy market by acquiring small independent chains of ~100 stores. FEMSA now has over 1,000 stores. The expansion of large chains is expected to continue moving forward, gaining ground on independent pharmacies, further consolidating the purchasing power of these groups. Meanwhile, supermarket pharmacies in Mexico have also been growing, from a presence in 18% of stores in 2007 to 28% in 2014.[5] Some supermarkets have tried to launch standalone entities, such as Wal-Mart's MediMart. However, the future of these standalone stores is unclear as they have demonstrated limited growth compared to other distribution channels.

Consumer brand loyalty weathers financial storms. Although emerging market consumers can be cost-conscious, branding plays a major role for consumer health products. A 2012 McKinsey study found that 63% of Brazilian middle class consumers consider brands highly relevant for medicine and would pay a premium for trustworthy ones. Consumers have a strong perception that a health product's price is a direct indicator of its quality or effectiveness, driving willingness to pay extra for well-known brands. Some consumers, especially the elderly, are so brand-loyal that if there is any change to coloring or packaging they believe they are being deceived and sold an inferior product.

Pharmaceutical companies are not allowed to advertise their prescription products in Brazil. As a result, many players have developed a strong OTC presence which they use as a platform to advertise heavily and build brand recognition, which in turn benefits both their OTC and prescription products. Interviews with a major Brazilian drug store chain revealed that consumers remain brand-loyal even in times of financial difficulty: *"They may opt for single-unit packaging, but they are not going to change the brand."* Mexican drug store chains also confirm the importance of mass media advertising to drive sales, such as through TV, radio, and social media. *"OTC drugs have a lifecycle that depends heavily on the success of the product's marketing and brand positioning."*

Complex purchase influencers. Pharmacists and even physicians can be key influencers for an OTC purchase, as the line between prescription and nonprescription medications remains blurred. Major pharma players promote OTC products to physicians alongside their prescription portfolio and provide incentives to pharmacy chains to move OTCs products. Because most OTCs are still behind the counter and must be requested, the pharmacist has an opportunity to influence the purchase and often indicates a recommendation based on the presenting symptoms. The regional disparities within countries change the weight of these influencers depending on the affluence and education levels of the consumer. One industry expert explains: *"In Brazil's wealthy South, consumers do Internet research based on their symptoms and arrive at the pharmacy already having made the purchase decision, while someone from the Northeast may rely solely on the pharmacist's suggestion."*

A mix of pull and push strategies appropriate for a product's stakeholder influences can be applied to maximize effectiveness.

"PHARMERGING" Fundamentals: Key Market Drivers

As in other global emerging markets, robust growth of the pharmacuetical market in Latin America is fueled by the region's emerging market dynamics, such as a growing middle class, favorable demographic trends, and the self-pay nature of primary healthcare that lends towards OTC consumption. These countries are also experiencing increasing urbanization and subsequent access to modern retail, as well as slowly improving regulatory environments that may alter to the market landscape. These trends create a "pharmerging" growth dynamic likely to affect pharmaceutical sales in the region for years to come.

Expanding middle class wallets and waistlines. Over the last decade, 100 million Latin Americans ascended from the lower to middle classes, generating larger disposable incomes.[4] This upward mobility for the middle class is accompanied by modern lifestyle shifts, such as changes in eating habits and sedentary lifestyles. Average monthly health expenditures for a Brazilian household are BRL 154, of which half is spent on medication (both Rx and OTC).[6] Changing nutritional habits and the increase of diseases related to modern lifestyles, combined with increasing consumer health awareness, have made OTC drugs the preferred choice for treatment of minor ailments and chronic diseases for the middle class consumers.

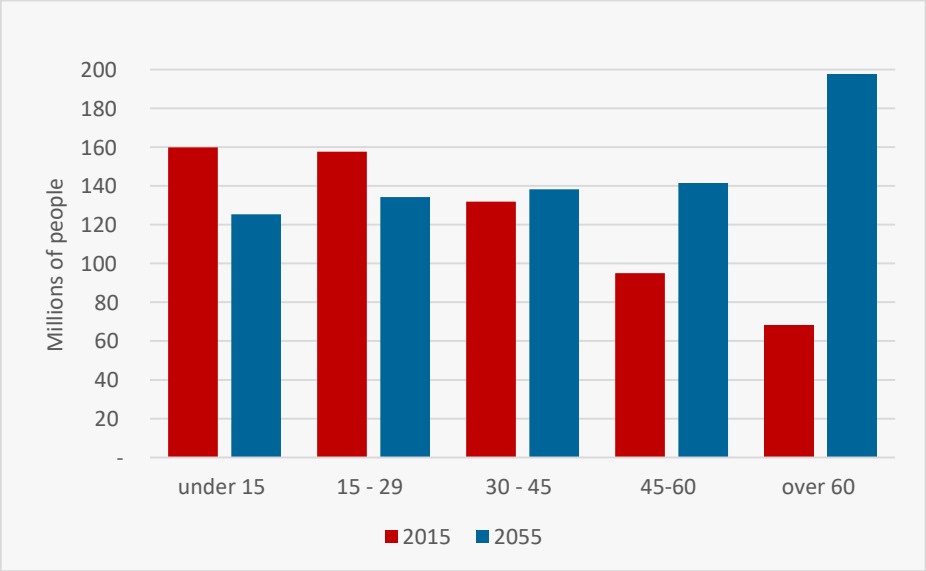
Impact of Key Trends on the OTC Market in Latin America

Expanding middle class	↑
Demographic shifts	↑
Underdeveloped primary care	↑
Regulatory changes	↑
Urbanization and modern retail	↑
Modern lifestyles	↑
Rise of generics	↓

Source: GHI, 2015

Aging of Latin American populations. Falling birth rates and extended life expectancy is hitting home across the region. Nowhere is this more pronounced than in Brazil, where fertility rates plummeted from 6.2 in the 1960s to below replacement rate at 1.8 in 2015.[7] The country of 200 million people currently enjoys a demographic peak in the economically active population and is seeing an unprecedented increase in its elderly cohort. At an earlier stage in the transition, Mexico has a population of 120 million that is expected to grow by another 18% (21 million) by 2020, contributing more to the region's population growth than any other country. The OTC sector is benefiting from growth in lucrative target segments, such as gainfully employed, middle-aged households and senior citizens.

Aging in Latin America



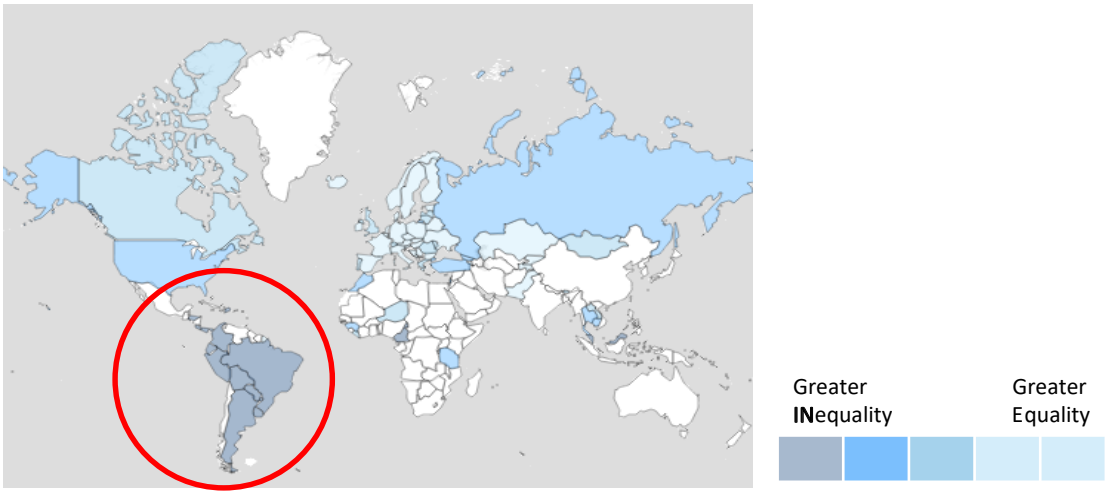
Source: GHI analysis based on data from the World Bank.

Crackdown on "under the counter" prescription drug sales. OTCs in Latin America have long competed against stronger prescription drugs that were commonly sold "under the counter" (without the necessary prescription). It is a common tale that consumers could pick up a strep throat antibiotic at the local pharmacy without a confirmed diagnosis. The region faced the growing problem of drug-resistant infections. This began to change in 2010 when both Brazil's National Health Surveillance Agency (ANVISA) and Mexico's Ministry of Health stepped up enforcement by requiring prescription duplicates and imposing hefty fines on noncompliant pharmacies. With prescriptions increasingly necessary for antibiotics, consumers are turning to OTCs to manage initial symptoms. This has resulted in pharmacies annexing doctor's offices next to their installations in order to facilitate prescriptions to customers, at a low cost.

Underdeveloped primary care and the self-medicating consumer. Because Latin American consumers are often faced with a self-pay environment for primary care, they tend toward self-medication as a first line of treatment. Consumers often turn to the local pharmacist for recommendations, relying on their informal diagnosis in place of a primary medical care provider. This self-medication phase may last for an extended period of time as the consumer seeks to avoid the long lines at a public hospital or paying out of pocket for a private doctor. An official in Mexico's Health Department confirms the *"high opportunity cost for both public and private medical care, either the wait time or high out of pocket costs, are growth factors for the OTC market."*

Income inequality. Latin America is the region with the most unequal income distribution in the world. In Brazil, consumers in the wealthier southern regions are better educated, apt to follow OTC consumption protocols, and have easier access to medical care. A consumer from the poorer northeast regions, in contrast, may not have the education or literacy for an informed purchase and relies on the local pharmacist as a pseudo primary care provider. Clinical pharmacology researchers complain that "*consumers often do not read proper dosage instructions and may take the product over a longer period than recommended or combine with other medications that can have serious health consequences.*"[8] This lack of primary care combined with low education levels creates a ripe environment for OTC misuse.

Income inequality in the world



Source: The World Bank, Gini Index, 2007.

Brazilian regulatory environment becoming OTC-friendly. Regulator concerns over self-medication misuse in Brazil has historically restricted consumer access to OTCs. Laborious and narrow approval process, additional requirements for the distribution of prescription-free medication, bans on advertising for certain categories (like analgesics), and limiting retail only to pharmacies have all played a part in limiting the potential expansion of the OTC market in Brazil.

In 2012, Brazil's ANVISA passed a new regulation that allows OTCs to come out from behind the pharmacy counter to be sold on retail shelves in drug stores. In 2016, ANVISA approved a new classification system for OTCs that will streamline the approval process, which currently takes an average of 1.5 years to complete. This would include an immediate "switch" from prescription to nonprescription status for hundreds of products. "W*e have been looking to open the market for OTCs and, at the same time, control for the indiscriminate use of these medicines,*" said ANVISA of recent policy changes.

The rise of low-cost generics could challenge certain OTCs. The emerging generic prescription drug segment is the fastest growing pharmaceutical category in Latin America. In Brazil, sales of generic medications more than tripled in value since 2009 at a CAGR of 32%. In 2004, Brazil launched a "Popular Pharmacy" program to make over 100 "essential" pharmaceutical products (mostly generics) available at a reduced cost at over 30,000 participating pharmacies. The patent expirations of popular branded prescription drugs in recent years contributed to the rapid growth.[9] According to an executive of a large pharmacy chain in Mexico City, the recent rise in low-cost generics in some cases competes with OTCs.

Outlook

Today's Latin American OTC market is riding tailwinds of social ascension and positive regulatory change, enabling healthy category growth despite choppy economic conditions. Some of the key factors to influence this dynamic market in coming years include:

Economic recovery faster for some. The U.S. is booming and lifting closely linked Latin American economies like Mexico, whose exports to the U.S. comprise nearly one-fourth of its GDP. Mexico's business cycle co-movement with the U.S. economy is the highest in Latin America.[10] Mexican median household income at USD 16,291 in 2015 is already substantially higher than that of Brazil, and is expected to grow by 10% through 2020, promising more disposable income for health spending.

Brazil will need more time to recover, with renewed growth and investment forecasted for 2018. The effect of economic recovery on the OTC market should be a net positive as, although some consumers may "upgrade" from OTC to prescription drugs, there should be a general increase in overall spending on consumer health from higher employment and rising incomes.

Source: Global Health Intelligence, 2015

Expansion of OTC drug list could have dramatic impact. In July 2016, ANVISA passed a new policy establishing a clear, timely process and more relaxed criteria for new products to be included on the OTC list. For example, products already sold as OTCs for over five years in other countries can be immediately included. Executive Vice President of the Brazilian industry association for both multinational and domestic OTC producers, ABIMIP, told Kline, "*We have been waiting 12 years for this legislation*." They believe the inclusion of new products already sold as OTCs in the U.S. could avoid up to 200 million prescriptions per year and anticipate that the OTC share of the overall Brazilian pharmaceutical market may extend from its current level at 27% to as high as 35%. One major local player, Ache Laboratories, believes it could double the size of its OTC portfolio. The current OTC wait list includes antacids, antifungals, antihistamines, expectorants, decongestants, and hair loss products, among others.

Pharmacists who "prescribe" OTCs. Major pharmacy chains in Brazil, in partnership with the academic community, are piloting new in-store programs that enable pharmacists with specialized knowledge of OTCs to "prescribe" them to consumers. As one academic pharmacist described, "*Post-graduate courses are being created to train pharmacists on OTCs, allowing them to diagnose and accompany customers as if they were patients, and all from within the store.*" The idea behind this initiative is to provide professional guidance for consumers who self-medicate in an effort to reduce OTC misuse. For OTC companies, this means participating pharmacists will have greater influence on the consumer's purchase, and they may want to allocate marketing efforts and incentives accordingly.

New retail channels for Brazil? With Brazil's former president Dilma Rouseff under impeachment proceedings, the proposed legislation to allow OTCs to be sold in supermarkets and convenience stores may pass under a new administration, increasing OTC availability in new markets and underserved areas.

The Brazilian Association of Supermarkets (ABRAS) is actively prompting this legislation, while the Association of Pharmacy and Drug Chains (ABRAFARMA) and wider pharmaceutical community strongly oppose it. However, it is likely a matter of time before Brazil adopts the same retail environment as is common in the U.S. and Mexico and OTCs find expanded retail opportunities. Although ANVISA determines national regulation on how OTCs can be retailed, states must adopt the new policies in their laws before change, which means development may be slow.

Innovation, product launches, and value growth. A 2013 study found that Latin Americans are the most eager of any region to try new product options, with 80% of respondents agreeing they like when manufacturers offer new innovations, compared with the global average of 63%.[11] Personal health and OCT medications were the most common categories for Latin Americans to have tried, at an average of two to four new products within a six-month period. A major Mexico City drug store chain executive agrees, saying, *"The most important growth will come from product innovation and new launches supported by media advertising. The consumer is always looking for new products."* Players like Ache in Brazil are planning to capitalize on growing wellness trends by investing in R&D for new products within dietary supplements. Hypermarcas is also planning OTC launches, with the president explaining they *"offer a rapid increase in revenue with relatively low investment thanks to relaxed regulatory restrictions in the country combined with pent-up demand."*

Looking ahead to Latin America's golden years. In the coming decades, the positive growth of the under age 40 cohort will eventually erode in key markets like Brazil and Mexico due to lower birth rates. Latin America is the fastest aging region in the world, and in 2055 there will be 130 million more Latin Americans over 60 than there are today. These demographic trends will continue to grow the[12] OTC market in Latin America into the more distant future. Players who want to gain or grow their foothold would do well to build brand strength with these customers with wellness products today, so that as seniors they turn to the same brand to manage the quality of their golden years.

Overall, a bright future for OTCs in Latam. With much needed regulatory change on the horizon, the category will enjoy long-term benefits from continued income growth, aging dynamics, and increased investment focused on the region.

Endnotes:

1 Based on a compilation of data sources including government reports, local industry associations, interviews with local industry experts and published research.
2 EMIS, 2014.
3 RaiaDrogasil Annual Report, 2016.
4 Global Health Intelligence, 2015.
5 Circulo Verde, Nadro, 2014.
6 Global Health Intelligence, 2015 based on WHO, OECD data.
7 OECD Reviews of Health Systems: Mexico 2016.
8 IBGE, 2014: A Pesquisa de Orçamentos Familiares.
9 WHO, OECD 2015.
10 Farmacêutica Clínica no Instituto de Neurologia de Curitiba.
11 Nielsen, 2013.
12 Global Health Intelligence, 2016.

About the IRI/Kline Alliance

Information Resources, Inc. (IRI) the global leader in innovative solutions and services for consumer, retail and over-the-counter healthcare companies, and Kline & Company, a global market research and management consulting firm, have established an exclusive alliance to serve the worldwide, over-the-counter (OTC) drug and overall consumer healthcare industries. This powerful alliance will provide a higher level of data accuracy and an unparalleled, global range of thought leadership on stimulating topics in the consumer healthcare space.

As part of this collaborative relationship, IRI will contribute its granular, widely recognized, point-of-sale (POS) market data, related insights, and thought leadership. Meanwhile, Kline will provide its unmatched historical database, global network, and 360-degree view of the complex OTC drug market, including its comprehensive channel coverage and vast expertise in the area of Rx-to-OTC switches.

The collaborative thought leadership will manifest through white papers like this one on such topics as Rx-to-OTC switch, merger and acquisition activity, new product innovation, as well as trends and issues in international and emerging markets within the OTC drugs industry.

About Kline:

Kline is a worldwide consulting and research firm dedicated to providing the kind of insight and knowledge that helps companies find a clear path to success. The firm has served the management consulting and market research needs of organizations in the agrochemicals, chemicals, materials, energy, life sciences, and consumer products industries for over 50 years. For more information, visit www.KlineGroup.com.

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IRI is a leader in delivering powerful market, consumer and media exposure information, predictive analytics and the foresight that leads to action. We go beyond the data to ignite extraordinary growth for our clients in the CPG, retail and over-the-counter health care industries by pinpointing what matters and illuminating how it can impact their businesses. Move your business forward at www.iriworldwide.com.

About the IRI Partner Ecosystem:

IRI fundamentally believes that delivering differentiated growth for clients requires deep, highly integrated partnering with a variety of best-of-breed companies. As such, IRI works closely with a broad range of industry leaders to create innovative joint solutions, services and access to capabilities to help its clients more effectively compete in their various markets and exceed their growth objectives. IRI is committed to its partnership philosophy and continues to actively enhance its ecosystem of partners through alliances, joint ventures, acquisitions and affiliations. The IRI Partner Ecosystem includes such companies as BlueKai (an Oracle Co.), The Boston Consulting Group, comScore, Datalogix (an Oracle Co.), Experian, GfK, Ipsos, Kantar, Kline, MaxPoint, Millward Brown Digital, Rentrak, SPINS, Univision, MasterCard Advisors and others.

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