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LOWEST PRICE INCREASE IN DECADE COULD SEE SEVERAL **PHARMA COMPANIES EXIT MARKET**

Health Minister Aaron Motsoaledi, gazetted a 1.26% single exit price (SEP) increase for medicines and scheduled substances in December 2017. This lowest SEP increase in a decade — second only to 2011 which saw no increase at all — comes amid growing utility costs and a depreciating Rand value and could see several players exit the market.

This is according to Erik Roos, CEO of Pharma Dynamics – a leading generic pharmaceutical in the country, who points out that for the past decade the average pharmaceutical pricing has consistently been set below inflation. "This pitiful increase may just be the final straw for companies whose margins continue to face pressure and it would not be surprising if some of the smaller players are forced to close shop."

Erik Roos, CEO of Pharma Dynamics

He adds that the continued pressure on the industry also leads to products being pulled from market, which means a smaller variety of quality, affordable medicines for patients. "According to IMS data for 2012 — 2017, as many as 700 pharmaceutical products have been pulled from the SA marketplace over the past five years and it is not farfetched to assume that the majority were pulled due to decreasing profitability

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rendering the molecules unviable."

Consider that, excluding wholesalers and distributors, SA's local pharmaceutical manufacturing sector employs and supports a sizeable total of 11,000 jobs across the country, making the sector one of the largest employers in SA, says Roos. "This past year already saw several players consolidating and decreasing their SA operations, which the country can ill afford since foreign investment and job creation remain critical to grow the economy."

Roos also highlights concern about dwindling foreign investment as a result of compounded pressure on the industry.

"Currently, SA remains the largest and most developed pharmaceutical market in Africa and could continue to charm large multinationals with its strong longer-term commercial potential based on its sizeable population of 56 million people and high degree of financial market development. However, continued price restrictions, failure to comply with BEE guidelines and state organisations being compelled to buy from domestic suppliers could lead to a reduction in foreign investment and even result in some international companies pulling their national foothold."

"On top of low price increases, the depreciation of the Rand will make the importing of active pharmaceutical ingredients pricier. To put things in perspective, currently more than 70% of pharmaceutical products on the continent are imported. The weak Rand is expected to add tremendous strain on even the biggest pharma companies whose margins are already under immense pressure."

"Add to this the introduction of the SA Health Products Regulatory Agency (SAHPRA) this year, which is geared to greatly reduce medicine approval times and alleviate a backlog of thousands of registrations. Of course, the industry is excited for the much-needed change, but it comes with a hefty price tag and could see new product registration costs increase substantially."

General inflation of utility costs such as the petrol price, the 5.23% electricity increase granted to Eskom and employee increases and remuneration also add to the strain, comments Roos.

"There are many pharma companies, including Pharma Dynamics, that plough millions into corporate social investment (CSI) initiatives to uplift underprivileged communities and increase access to affordable healthcare, but the reality is that these too fall by the wayside if pricing does not increase in accordance with general inflation."

Roos comments that the cries of the financially strained lower to middle-class population for access to affordable healthcare do not fall on deaf ears.

"The industry understands that the end user is no doubt also experiencing major financial pressure and that affordable healthcare is a priority for patients. We have always focused on bringing affordable medicines to patients, but medicine is no longer the main culprit – the data shows that medicines costs have been well contained and consume less of the healthcare expenditure on a year on year basis. On the other hand, non-price regulated bodies in the private healthcare sector are granted increases higher than inflation. Medical scheme increases, for example, have consistently outgrown inflation and this cycle is no exception with medical aids demanding a hefty increase between 7% and 10.5% from members."

"This unbalanced implementation of price restrictions counteracts the lower medicine prices and impacts on overall healthcare expenditure for patients. It's true that various factors play a role in these calculations and it is not a one size fits all formula across industries, but surely a warning light must go on when such a vast difference in annual increases is granted."

"South Africa has the potential for marked pharmaceutical sector growth, but it is critical that government improves investor confidence by addressing imbalances on price restrictions and removing unnecessary barriers in order for the pharmaceutical industry to remain robust," concludes Roos.

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