Insights into the high-level financial contribution of the Pharmaceutical Industry in South Africa

February 2010
The report focused on analysing the total contribution of the pharmaceutical industry to the South African economy.

**Sampled and estimated income statement for the Pharma industry**

<table>
<thead>
<tr>
<th>Total market (estimate)</th>
<th>R 32.5bn</th>
<th>R 36.1bn</th>
<th>R 11.9bn</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sampled companies</td>
<td>R 2.3bn</td>
<td>R 4.4bn</td>
<td>R 0.7bn</td>
</tr>
<tr>
<td></td>
<td>R 2.5bn</td>
<td></td>
<td>R 0.5bn</td>
</tr>
</tbody>
</table>

**Industry structure**

**Sampled Companies:**
- The sampled pharmaceutical firms reported a total revenue of R26.7bn for the financial year end 2008. The revenue profile breakdown was as follows:
  - Total spend of R8.8bn were recorded by the sampled firms
  - Salaries paid for the year amounted to R3.3bn
  - The sampled firms paid R1.7bn in total tax
- The sampled pharmaceutical industry contributed 1.2% to Gross Domestic Product (GDP)

**Extrapolated Industry:**
- Using private healthcare sales figures, Deloitte estimated that the sample represented approx 74% of the total market
- The pharmaceutical industry is estimated to have generated a total of R36.1bn in revenue in 2008.
  - Total contribution to salaries is predicted at R4.4bn
  - The pharmaceutical industry is estimated to have paid R2.3bn in VAT and tax
  - The pharmaceutical industry is estimated to have contributed 1.6% to national GDP

The pharmaceutical industry is estimated to have contributed 1.6% (direct and indirect) to GDP for the financial year end 2008.
An important focus area of revenue is the split between revenue spend in the public and private sector as it will be impacted by NHI.

### Customer breakdown by gross revenue
- **Public Sector %** 19%
- **Private Sector %** 81%

### Product sold by gross revenue
- **FMCG** 12%
- **Schedule 0** 10%
- **Schedule 1 & 2** 12%
- **Prescription Meds** 66%

#### Public vs. Private
- Operational revenue amounting to R 22bn was categorised between the (local) public and private sector.
- 81% of this revenue was earned from clients and customers in the private sector. This equated to R17.7bn.
- 19% was earned from sales to customers and clients in the private sector. The rand value of sales in the private sector was 4.2bn.

#### Breakdown of Product Category
- The product which brought in the most revenue was prescription medications. 67% of total operational revenue was earned from prescription medication which amounted to R15.7bn.
- FMCG’s accounted for 12% of operational revenue, which was a rand value of 2.9bn.
- Schedule 0 and schedule 1 & 2 accounted for 10% and 11% of operational revenue respectively. This amounted to R2.5bn and R2.6bn respectively.

---

**The sampled pharmaceutical firms conducted the majority of their business in the private sector with 81% of operational revenue derived from the sector.**
Exports contributed a minor portion of revenue but the analysis is important in terms of understanding the pharmaceutical industry in South Africa.

**Products sold in export markets by gross revenue**

- **FMCG**: 15%
- **Schedule 0**: 4%
- **Schedule 1 & 2**: 4%
- **Prescription Meds**: 77%

**Breakdown of Export Revenue**

- During the 2008 financial year, the sampled companies exported R1.8bn worth of products. Which contributed 5% towards total revenue. The industry is predicted to export products worth R2.5bn.
- Prescription medications were the largest exported product at 77% of export revenue. This amounted to R1.4bn.
- FMCG products contributed 15% of export revenue which was a rand value of 277.2m.
- Schedule 0 and schedule 1 & 2 accounted for 4% and 3% of export revenue respectively. The value for schedule 0 and schedule 1 & 2 was R72.9m and R61.7m respectively.

**The industry was estimated to export R2.5bn worth of products in 2008**
Analysis of Capital Expenditure reveals the pharmaceuticals plans for continued investment in South Africa’s pharma infrastructure

The nominal and real CAPEX figures show an increase in the expenditure in CAPEX over the period FY08 to FY10. This indicates that the sampled pharmaceutical companies are optimistic for the industry over this period. There is however a decline in nominal and real CAPEX for the budgeted FY11 year.

The sampled firms are expecting to invest a total rand amount of 5.1bn in CAPEX over the period 2008 to 2011.

Based on extrapolation the pharmaceutical industry is expecting to invest R 6.9bn in capital over the period 2008 to 2011.

The pharmaceutical industry is expecting to increase CAPEX investment by 50% in 2010.
Sampled firms have a high percentage of female employees and given the high levels of employee specialisation, a large black employee share.

- **Decomposition of permanent employees by gender**
  - Male: 41%
  - Female: 59%

- **Decomposition of employees by race**
  - White: 46%
  - African: 28%
  - Coloured: 16%
  - Indian: 10%

**Employment Profile**

- 59% of total staff are female and that 41% of staff is male.
- Of the male employees, 35% are African, while 14% are Coloured, 11% are Indian, 39% are White and 1% are Foreign Nationals.
- Of the female employees, 24% are African, 17% are Coloured, 9% are Indian, 50% are White and 0% are Foreign Nationals.
- Black males and females represent 12% and 7% of Top Management respectively in the sampled firms while the national average is 18% and 6% respectively.
- Black males represent 14% and 15% of Senior Management, which compares against the national averages of 23% and 10% respectively.
- Black males and females represent 18% and 16% of Professionally Qualified staff while Black females account for 16%. These compare against the national averages of 27% and 19%.

The proportion of Black females in Top and Senior Management in the sampled pharmaceutical industry is above the national average.