

# Region Report

## Latin America

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May 2013

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# Latin American Tearsheet

## Market Dynamics<sup>(1)</sup>

- ❖ \$81 billion healthcare expenditure in 2011
- ❖ One-third of emerging market pharmaceutical sales
- ❖ Rapidly increasing middle class and dramatic growth in the relative affluence of the population
- ❖ Increases in domestic consumption and public funding

## Industry Outlook<sup>(1)</sup>

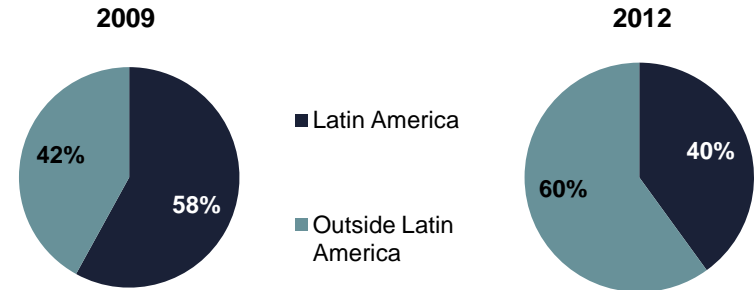
- ❖ Latin American countries are expecting double-digit yearly growth between now and 2015 (U.S. and Western Europe: 0-4%)
- ❖ Rapid phase-out of “similares”

## Trading & Transaction Comps<sup>(2)</sup>

- ❖ Enterprise Value Multiples
  - Median EBITDA Multiple: 8.1x in 2012
  - Median Revenue Multiple: 1.8x in 2012
  - Total number of deals: 68 in 2012
- ❖ Stock Performance relative to 5-year benchmarks
  - Performance relative to S&P 500: +73%
  - Performance relative to Healthcare Sector: +42%

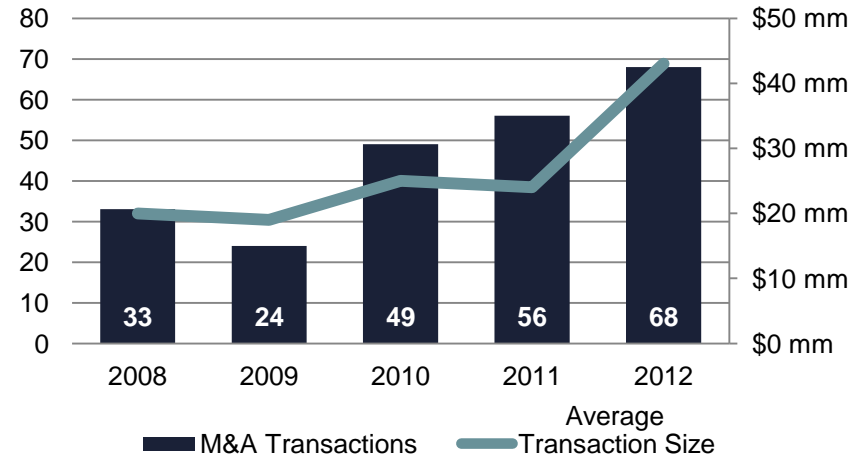
Source:  
 (1) WHO; WorldBank  
 (2) Bourne Partners Proprietary Research, CapitalIQ, April 2013

## Increase in Non-Latin American Acquirers



Source: Bourne Partners Proprietary Research, CapitalIQ, April 2013

## Latin American Healthcare M&A Transactions



Source: Bourne Partners Proprietary Research, CapitalIQ, April 2013

# Regional Overview

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# Latin American Economic Overview

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- ❖ Total GDP for the region in 2012 was \$5.7 trillion, and is expected to surpass \$7.5 trillion in 2017<sup>(1)</sup>
- ❖ GDP has grown 215% over the last ten years, compared to global GDP growth of 114%
- ❖ Latin American population has grown 15% over the last ten years, compared to global population growth of 12%
- ❖ The seven largest countries (Brazil, Mexico, Argentina, Colombia, Venezuela, Chile, and Peru) account for over 80% of the region's population and over 90% of GDP. The two largest, Brazil and Mexico, account for 54% of the population and 62% of GDP
- ❖ Population is expected to grow by 5.88% over the next five years to nearly 620 million
- ❖ The fastest growing countries (with a current population of at least 10 million) are Guatemala, Venezuela, Bolivia, the Dominican Republic and Peru
- ❖ However, regional growth has been somewhat stymied by the reduced demand for its commodity exports in India, Russia, and China as their economic growth has slowed

## Regional Trends <sup>(2)</sup>

- ❖ Bounce back from 2008 global economic crisis
  - Macroeconomic policies – targeting inflation and debt reduction
  - Trade expansion – growing relationship with China
  - Domestic market – closing income gap and increasing purchasing power
    - In Brazil alone, 49 million people have moved up into the middle class and middle-upper class over the last eight years.
- ❖ Increasing inter-region trade and domestic demand
  - Trade between Latin American countries has increased nine-fold over the last twenty years
- ❖ Infrastructure upgrades have become top spending priorities in the wake of natural disasters and decades of inattention

Source:

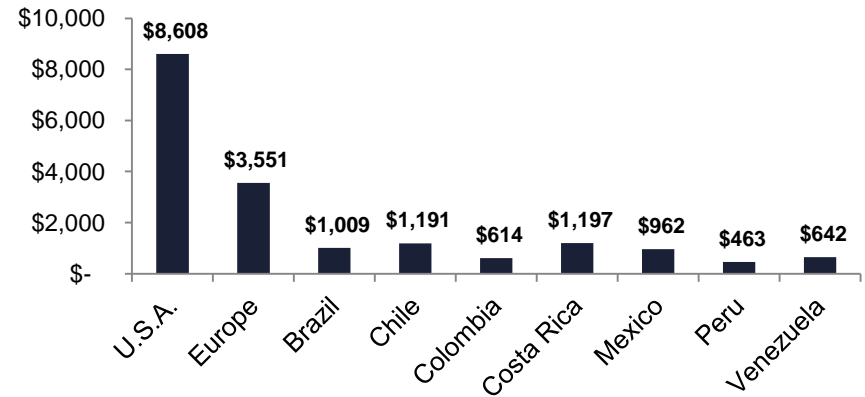
(1) International Monetary Fund

(2) Economist Intelligence Unit

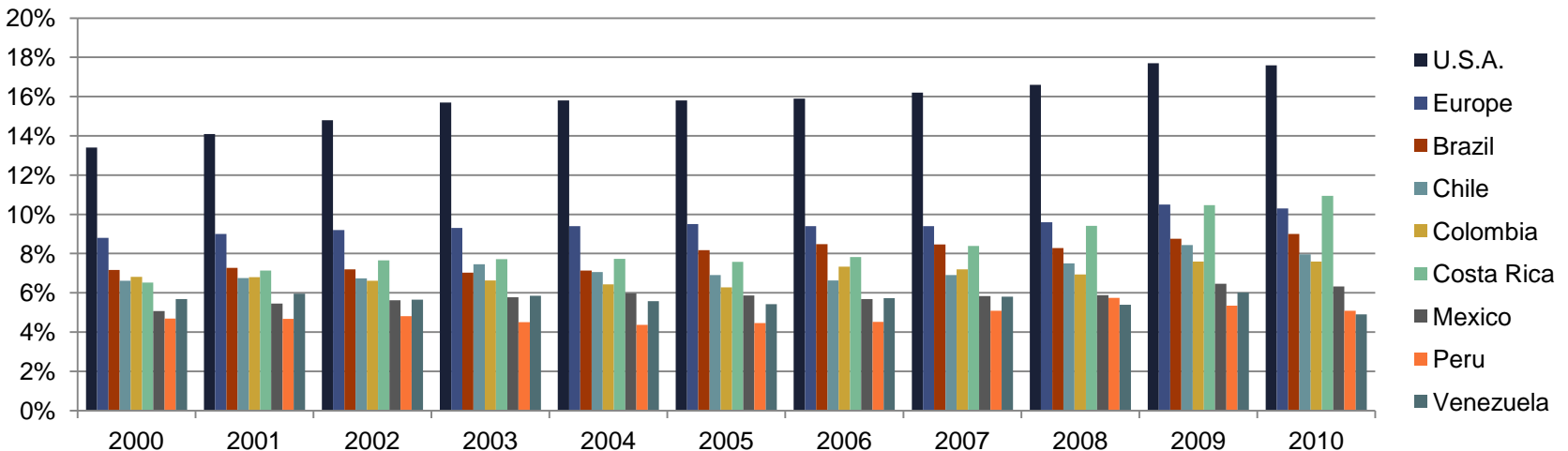
# Latin American Healthcare Overview

- ❖ Total healthcare expenditure as percentage of GDP is 7.7% in the region
- ❖ Per capita healthcare expenditure (an exchange rate adjusted \$671) provides significant room for continued growth
- ❖ Out-of-pocket spending represents 72.4% of the regions overall healthcare expenditure
- ❖ This overwhelming out-of-pocket spend is extremely attractive especially in countries with fluctuating political situations because healthcare providers are less reliant on developing governments
- ❖ However, less government involvement has led to an IP protection environment that is suspect within the majority of countries

**Per Capita Healthcare Expenditure (Purchasing Power Parity)<sup>(1)</sup>**



**Healthcare Expenditure as Percentage of GDP <sup>(2)</sup>**



Source:  
 (1) WHO  
 (2) World Bank

# Latin American Market Dynamics

## Brand Loyalty

- ❖ Latin American countries have proven to be very brand loyal, which has led to a slower adoption rate for generic drugs
- ❖ Some of this is attributable to consumer preference, while a portion is a direct result of consumer concerns over safety and efficacy

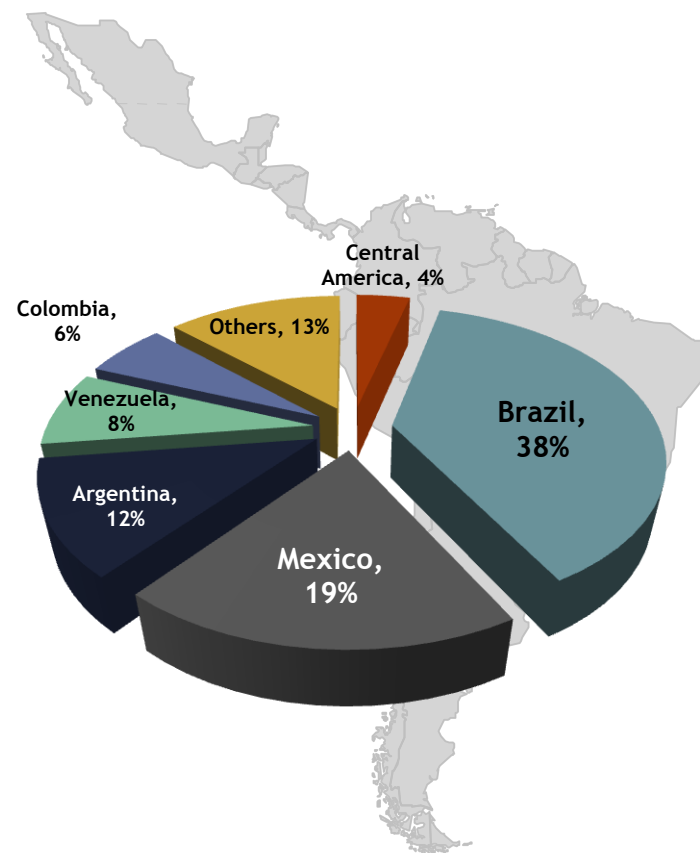
## Government Initiatives

- ❖ Although government payers have historically represented a smaller share of healthcare spend across the region, government initiatives to offer higher quality healthcare across the populous have taken hold as economic growth has spurred the rapid expansion of the middle classes

## Eradication of “Similares”

- ❖ In 1999 the Brazilian government mandated that by 2014 all similares would need to prove bioequivalence to stay on the market
- ❖ Similar regulations have popped up across the region (most notably in Mexico) as governments try to reign in safety and provide an environment that is conducive for investment and innovation
- ❖ The reduction in similares will ultimately lead to a more lucrative generics market, where a branded generic company could enter and achieve significant market share quickly

## Latin American Healthcare Market Share (by \$)



Source: IMS Health

# Markets of Interest

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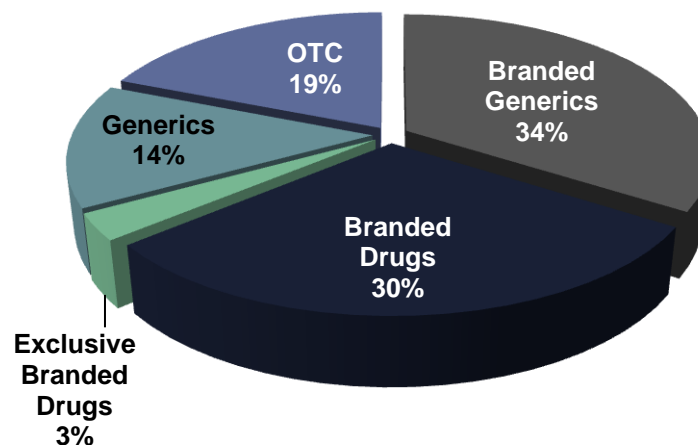


# Brazilian Market Overview

## Brazilian Market Highlights and Key Takeaways

- ❖ Brazilian population of 195 million makes Brazil the largest Latin American country by both population and land mass<sup>(1)</sup>
- ❖ The public Unified Health System (UHS) covers 75% of Brazil's population, and Brazil is the second largest insurance market in the world behind only the United States<sup>(2)</sup>
- ❖ Brazil also has the largest economy in Latin American with a GDP of \$2.5 trillion (7<sup>th</sup> largest worldwide)<sup>(1)</sup>
- ❖ However, the business environment remains challenging and often lacks transparency
- ❖ Nearly 60% of private expenditure comes from out-of-pocket payments, with the other 40% from private insurance<sup>(2)</sup>
- ❖ Brazilian pharmaceutical market accounted for \$25.6 billion, roughly 3% of the global market<sup>(3)</sup>
- ❖ The aging population combined with the growth in the Brazilian upper- and middle-classes has resulted in CAGR of over 15% for pharmaceutical spending between 2006 and 2010<sup>(3)</sup>
- ❖ The UHS network consists of more than 6,000 hospitals and 60,000 outpatient centers<sup>(2)</sup>
- ❖ Distributors have little control over pricing due to consolidation of pharmacies
- ❖ There are over 550 pharmaceutical firms operating in the country<sup>(3)</sup>
- ❖ 90% of retail pharmacies are independent<sup>(2)</sup>
- ❖ Major chains only make up 8% of locations<sup>(2)</sup>
- ❖ 45% of sales may be skewed by off-invoice discounting of similares by local companies<sup>(3)</sup>
- ❖ Relationships with major retailers is key
- ❖ Geography leads to fragmentation
- ❖ Total healthcare expenditure as a percentage of GDP: 9%<sup>(1)</sup>

**Brazilian Pharmaceutical Market Product Mix (by \$)<sup>(4)</sup>**



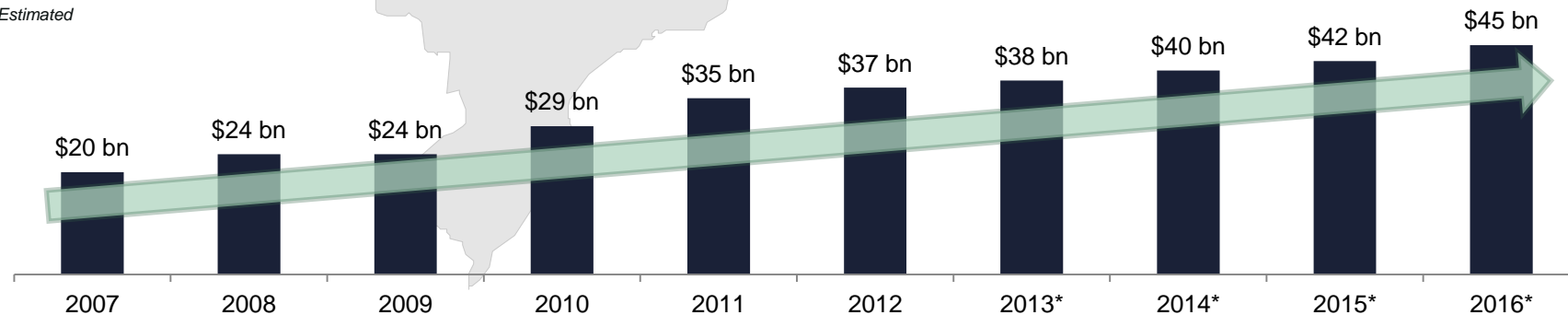
Source:  
 (1) World Bank  
 (2) WHO  
 (3) IMS Health  
 (4) Business Monitor International

# Brazilian Pharmaceutical Market

- ❖ A tight pricing environment, driven by Brazil's aggressive shift towards reference pricing, is likely to limit growth in patented pharmaceutical sales
- ❖ Brazil has a large generics industry due to government policy aimed at increasing accessibility of pharmaceuticals to low-income individuals. By law, purchases by the government must favor generics
- ❖ Rumors of a possible international pharmaceutical purchase of Aché Laboratorios Farmaceuticos, one of Brazil's largest pharmaceutical companies, persist, and illustrate the multinationals desires to enter the market
- ❖ 25 of the most popular drugs lost patents in 2010 and 2011. Consumption of generics is projected to grow at a fast pace, and generics should represent a third of total market volume by 2016<sup>(1)</sup>
- ❖ 2012 market size was \$37 billion and it is expected to grow to over \$45 billion in 2016<sup>(1)</sup>
- ❖ 80% of Brazilian pharmaceutical companies are locally owned, but they only supply 30% of the market<sup>(2)</sup>
- ❖ 70% of the market is provided by imports and Brazilian subsidiaries of foreign firms, primarily from the US and Europe<sup>(2)</sup>
- ❖ Rising demand for cheap biosimilar drugs has led the government to form BioBrazil, a 100% Brazilian pharmaceutical company to eventually produce world class biosimilar drugs (biosimilars are simply called biologics in Brazil to avoid confusion with similares)

**Brazilian Pharmaceutical Market Growth<sup>(4)</sup>**

\*Estimated



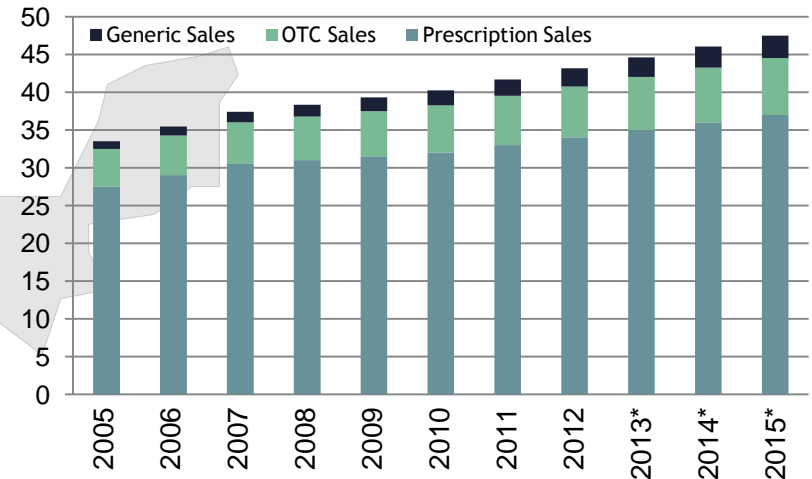
Source:  
 (1) WHO  
 (2) IMS Health  
 (3) Business Monitor International  
 (4) Sindusfarma

# Mexican Market Overview

## Mexican Market Highlights and Key Takeaways

- ❖ Mexico is the second largest pharmaceutical market in Latin America (behind Brazil), with regulatory benefits well-defined<sup>(1)</sup>
- ❖ 45.2 million Mexicans used health services in 2010, and there are over 20,000 hospitals and outpatient centers<sup>(1)</sup>
- ❖ Popular Insurance supports all primary care, 95% of secondary care and 60% of catastrophic illnesses<sup>(1)</sup>
- ❖ A vast majority of private expenditure on healthcare is direct spending, nearly 60% of which is used to buy medications<sup>(1)</sup>
- ❖ Unbranded generics are gradually gaining acceptance and are the fastest growing segment (shown in chart below)
- ❖ Healthcare spending as a percentage of GDP was only 6% in 2010, below the Latin American average of 7.4%<sup>(2)</sup>
  - Expected sales growth of 6% CAGR over the next 5 years is at lower end of Latin America<sup>(3)</sup>
  - Government underfunding of sector leads to high out-of-pocket expense for consumer
- ❖ Mexico is an attractive investor opportunity but has some challenges
- ❖ Historic narcoterrorism and increased exposure to the slowly recovering U.S. economy pose risks
- ❖ Best IP protection in region<sup>(3)</sup>
  - Strengthened by data exclusivity
  - Mexico has emphasized reaching internationally acceptable IP protection
- ❖ 48% of pharmaceutical spending is out-of-pocket<sup>(2)</sup>
- ❖ 75% of market revenue comes from branded drugs<sup>(3)</sup>

## Mexico's Pharmaceutical Market Sales Snapshot<sup>(4)</sup>



\*Estimated

Source:

(1) WHO

(2) World Bank

(3) IMS Health

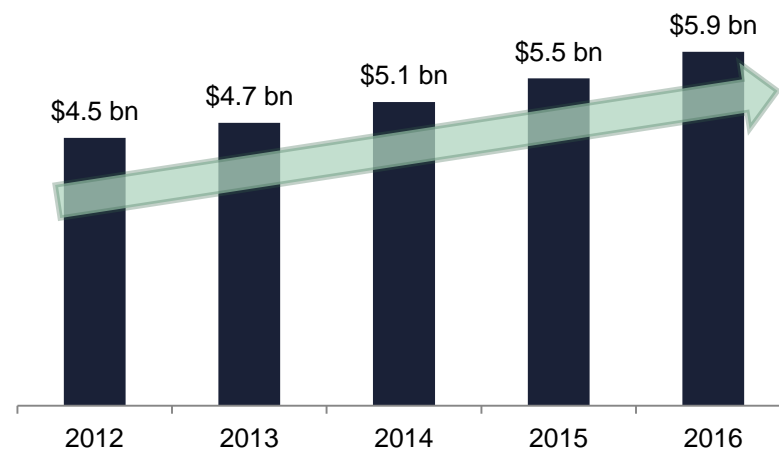
(4) Market Publishers

# Colombian Market Overview

## Colombian Market Highlights and Key Takeaways

- ❖ Total healthcare expenditure represents 6.5% of Colombia's GDP<sup>(1)</sup>
- ❖ Per capita healthcare expenditure is \$614 adjusted for exchange rate fluctuation<sup>(1)</sup>
- ❖ Public sector accounts for 84% of healthcare spending and 40% of pharmaceutical spending, which have allowed Colombia to follow Brazil's lead and demand regional reference pricing<sup>(1)</sup>
- ❖ Multinationals control the market with a 60% share<sup>(2)</sup>
- ❖ Multinationals use Colombia as a distribution hub for the entire Andean Region (Colombia, Peru, Bolivia, Ecuador)
- ❖ 70% of pharmaceuticals are locally produced, but only account for 20% of revenue<sup>(3)</sup>
- ❖ Recent Free Trade Agreement with the U.S. could ease local production preference
- ❖ Registration can be cumbersome due to lack of staff
- ❖ Recent growth in pharmaceutical volume is largely attributable to a nationwide shift to generics
- ❖ OTC sales represent 15% of the market, but are expected to rise due to increases in real income and a more health conscious population<sup>(4)</sup>
- ❖ 91% of the population is covered by the government mandated General Health and Social Security System<sup>(3)</sup>
- ❖ Public hospital system has seen drastic improvement as over 240 hospitals were improved during the period between 2002 and 2010<sup>(3)</sup>

## Projected Colombian Pharmaceutical Market Growth<sup>(5)</sup>



Source:

(1) World Bank

(2) IMS Health

(3) WHO

(4) Business Monitor International

(5) MINSALUD

# Chilean and Venezuelan Market Overviews

## Chilean Market Highlights and Key Takeaways

- ❖ Total healthcare expenditure represents 7.4% of GDP<sup>(1)</sup>
- ❖ Out-of-pocket spending as a percentage of total private healthcare expenditure is nearly 70%<sup>(2)</sup>
- ❖ Per capita healthcare expenditure is among the largest in Latin America at an exchange rate adjusted total of \$1,191<sup>(1)</sup>
- ❖ Local manufacturers account for roughly 60% of the total Chilean pharmaceutical market<sup>(3)</sup>
  - Branded generics make up 50% of the pharmaceutical market
  - Patented drugs make up 40% and
  - Generics make up the remaining 10% of the market
- ❖ 80% of sales occur through retail pharmacies<sup>(3)</sup>
- ❖ Local generics cost below 20% of their branded counterparts<sup>(2)</sup>
- ❖ General System of Health recently guaranteed all citizens access, timeliness, quality, and financial protection regarding the Chilean healthcare system
- ❖ The system covers over 69 different health problems<sup>(2)</sup>

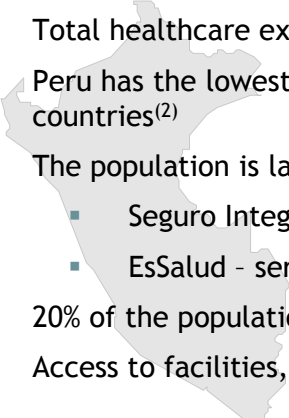
## Venezuelan Market Highlights and Key Takeaways

- ❖ Total healthcare expenditure represents only 5.3% of GDP for the commodities exporting giant<sup>(1)</sup>
- ❖ Likewise, per capita healthcare expenditure (\$642) is among the lowest in Latin America<sup>(2)</sup>
- ❖ During the reign of recently deceased dictator, Hugo Chavez, the Venezuelan government increased funding for public social programs (including nationalized healthcare) by more than 17x<sup>(2)</sup>
- ❖ However, drug scarcity and a lack of specialists continues to plague the country's healthcare system
- ❖ Private hospitals within the country are extremely expensive, but have first-world practitioners and services
- ❖ However, public hospitals are over-crowded and lack the necessary practitioners to maintain an acceptable level of service
- ❖ It is unclear what path the government will take following the election of a new leader, but Bolivarian socialism is expected to maintain at least a tenuous grip on the country's political machine

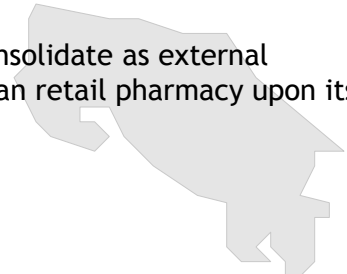
Source:  
(1) World Bank  
(2) WHO  
(3) IMS Health

# Peruvian and Costa Rican Market Overviews

## Peruvian Market Highlights and Key Takeaways

- 
- ❖ Total healthcare expenditure represents only 4.9% of Peru's GDP<sup>(1)</sup>
  - ❖ Peru has the lowest per capita spend on healthcare (\$463) as well as the slowest growth among Latin American countries<sup>(2)</sup>
  - ❖ The population is largely covered by two large public insurers<sup>(1)</sup>
    - Seguro Integral de Salud (“SIS”) - serves the poor population of the country and operates like Medicare/Medicaid
    - EsSalud - serves the employed population and is similar to an employer based health plan in the U.S.
  - ❖ 20% of the population is still completely unserved<sup>(1)</sup>
  - ❖ Access to facilities, practitioners, and medication are limited and often require tremendous wait times<sup>(1)</sup>

## Costa Rican Market Highlights and Key Takeaways

- 
- ❖ Total healthcare expenditure represents a staggering 10.3% of GDP and per capita healthcare spend is among the highest in Latin America at \$1,197<sup>(2)</sup>
  - ❖ The retail pharmacy market is dominated by very few retailers and that group should only consolidate as external market participants enter the retail pharmacy space similar to Walmart's disruption of Mexican retail pharmacy upon its entrance into the market

Source:  
(1) WHO  
(2) World Bank

# Regional Market Comps

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# Latin American M&A Activity in General

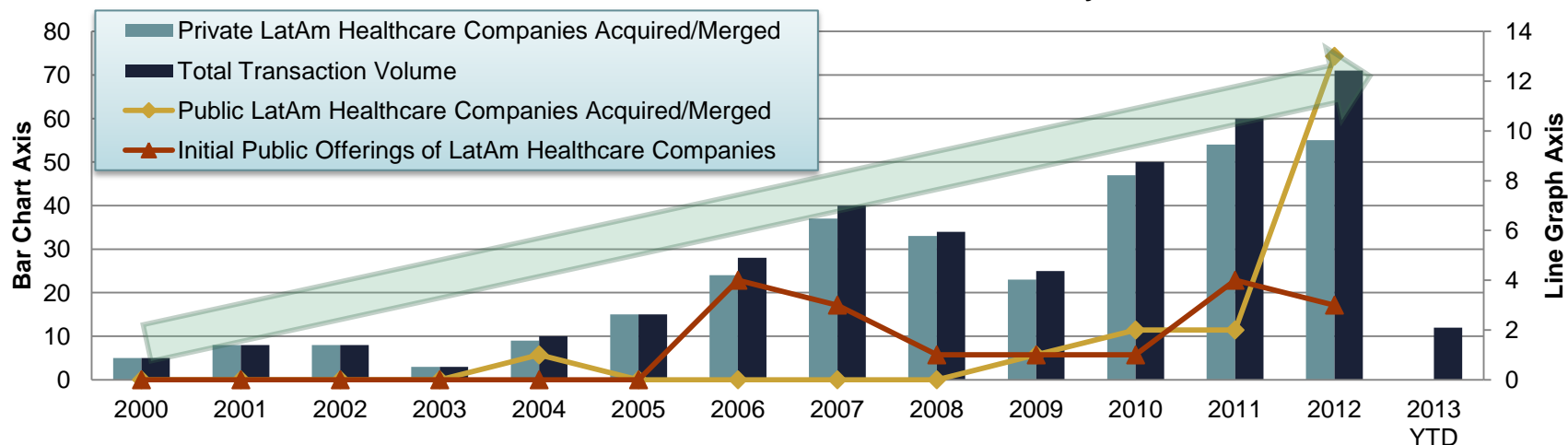
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- ❖ M&A has become both a viable and very popular exit strategy for capital or resource constrained private companies within Latin America
- ❖ Many global healthcare companies are able to leverage their balance sheets in order to enter these attractive markets as opposed to investing time and capital into building from scratch
- ❖ Latin American markets are extremely fragmented due to the prevalence of small, family-owned companies operating within the region's healthcare space. However, some of the more ambitious management teams have emphasized growth and competition elimination through acquisition in recent years
- ❖ A growing number of acquisitions have been forecast to be nearly immediately accretive, leading to rising share prices not only for the acquiree but also for the acquirer
- ❖ On a geographic basis there appears to be an increasing focus on Latin American emerging markets by U.S. and European companies seeking to enter these markets for production, sourcing, and sales



# Regional IPO and M&A Activity (2000 - Present)

## Latin American Healthcare IPO and M&A Activity



	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013 YTD
Public LatAm Healthcare Companies Acquired/Merged	-	-	-	-	1	-	-	-	-	1	2	2	13	2
Private LatAm Healthcare Companies Acquired/Merged	5	8	8	3	9	15	24	37	33	23	47	54	55	8
Initial Public Offerings of LatAm Healthcare Companies	-	-	-	-	-	-	4	3	1	1	1	4	3	2
<b>Total</b>	<b>5</b>	<b>8</b>	<b>8</b>	<b>3</b>	<b>10</b>	<b>15</b>	<b>28</b>	<b>40</b>	<b>34</b>	<b>25</b>	<b>50</b>	<b>60</b>	<b>71</b>	<b>12</b>

- ❖ Transaction volume has dramatically increased since last decade (23% CAGR from 2000 to 2012)
- ❖ Total transaction volume has been driven by private M&A transactions; however, as more buyers make their exits we're seeing an increase in both IPOs and the subsequent acquisitions of these public companies

*Note: 2013 YTD through April 2013;  
Source: Bourne Partners Internal Research*

# Latin American General Healthcare Trading Comps

USD in millions, except for per-share amounts

Company	Ticker	Share Price	Shares Out	Equity Value	Net Debt (Cash)	Enterprise Value	LTM				C/E			Book Value	
							Sales	EBITDA	EBIT	EPS	Sales	EBITDA	EPS		C/E+1
Amil Participacoes SA	BOVESPA:AMIL3	15.67	366.7	5,747.8	85.7	5,833.5	5,108.3	116.5	42.0	0.03	5,538.8	444.4	0.56	0.70	2.0
Qualicorp S.A.	BOVESPA:QUAL3	10.29	264.1	2,716.8	88.0	2,804.7	449.4	126.4	47.1	0.10	570.0	216.3	0.52	0.57	3.7
Clínica de Marly S.A.	BVC:MARLY	2.25	10.7	24.0	(12.2)	11.8	63.7	13.7	10.5	0.57	0.0	0.0	0.00	0.00	7.2
Clinica las Condes S.A.	SNSE:LAS CONDES	86.82	8.3	718.5	20.2	738.7	265.9	59.7	47.7	3.34	0.0	0.0	0.00	0.00	38.0
Instituto de Diagnostico S.A.	SNSE:INDISA	3.90	80.6	313.9	63.7	377.6	161.3	30.4	24.0	0.15	0.0	0.0	0.00	0.00	1.0
Fleury S/A	BOVESPA:FLRY3	9.47	156.3	1,479.9	185.1	1,665.1	733.1	154.6	105.6	0.31	861.4	191.4	0.54	0.69	5.3
Banmedica S.A.	SNSE:BANMEDICA	2.65	804.7	2,129.9	302.1	2,432.0	1,876.9	197.0	157.4	0.10	0.0	0.0	0.00	0.00	0.5
Diagnosticos da America	BOVESPA:DASA3	5.70	310.6	1,770.1	412.9	2,183.0	1,105.3	187.3	114.0	0.12	1,265.7	266.1	0.29	0.41	4.1
Cremer SA	BOVESPA:CREM3	6.46	32.9	212.2	81.8	294.0	301.7	27.5	14.8	0.13	290.9	41.1	0.42	0.56	4.2
Cruz Blanca Salud S.A.	SNSE:CRUZBLANCA	1.23	637.7	783.1	181.6	964.7	983.9	79.4	61.6	0.05	1,111.7	97.4	0.08	0.10	0.6

Company	Ticker	FYE	Data as of	Margin Analysis			Enterprise Value/			Sales C/E	P/E			Price to Book
				Gross Profit	EBITDA	EBIT	Sales	EBITDA	EBIT		LTM	C/E	C/E+1	
Amil Participacoes SA	BOVESPA:AMIL3	31-Dec	1-Apr-13	24.6%	2.3%	0.8%	1.1 x	50.1 x	138.8 x	1.1 x	483.3 x	27.9 x	22.3 x	7.7 x
Qualicorp S.A.	BOVESPA:QUAL3	31-Dec	1-Apr-13	74.5%	28.1%	10.5%	6.2 x	22.2 x	59.5 x	4.9 x	107.4 x	19.8 x	18.0 x	2.8 x
Clínica de Marly S.A.	BVC:MARLY	31-Dec	1-Apr-13	28.5%	21.5%	16.6%	0.2 x	0.9 x	1.1 x	NM	3.9 x	NM	NM	0.3 x
Clinica las Condes S.A.	SNSE:LAS CONDES	31-Dec	1-Apr-13	26.1%	22.5%	18.0%	2.8 x	12.4 x	15.5 x	NM	26.0 x	NM	NM	2.3 x
Instituto de Diagnostico S.A.	SNSE:INDISA	31-Dec	1-Apr-13	29.1%	18.8%	14.9%	2.3 x	12.4 x	15.8 x	NM	26.2 x	NM	NM	3.9 x
Fleury S/A	BOVESPA:FLRY3	31-Dec	1-Apr-13	26.9%	21.1%	14.4%	2.3 x	10.8 x	15.8 x	1.9 x	30.7 x	17.6 x	13.8 x	1.8 x
Banmedica S.A.	SNSE:BANMEDICA	31-Dec	1-Apr-13	22.3%	10.5%	8.4%	1.3 x	12.3 x	15.5 x	NM	26.7 x	NM	NM	5.8 x
Diagnosticos da America	BOVESPA:DASA3	31-Dec	1-Apr-13	30.9%	16.9%	10.3%	2.0 x	11.7 x	19.2 x	1.7 x	48.2 x	19.5 x	14.0 x	1.4 x
Cremer SA	BOVESPA:CREM3	31-Dec	1-Apr-13	27.3%	9.1%	4.9%	1.0 x	10.7 x	19.8 x	1.0 x	48.3 x	15.5 x	11.5 x	1.5 x
Cruz Blanca Salud S.A.	SNSE:CRUZBLANCA	31-Dec	1-Apr-13	20.9%	8.1%	6.3%	1.0 x	12.1 x	15.7 x	0.9 x	26.6 x	15.3 x	12.9 x	2.1 x

All estimates from Capital IQ

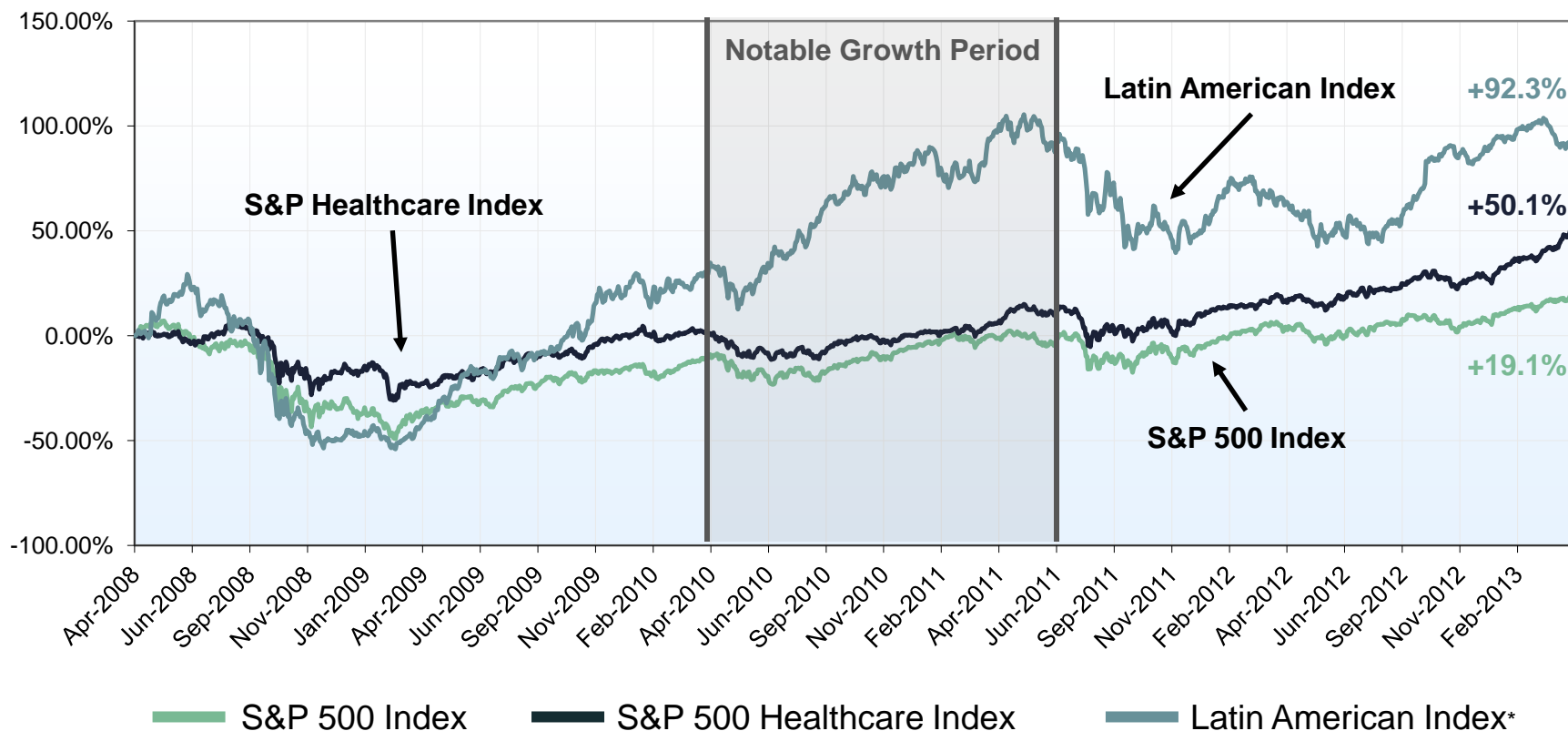
NM - not meaningful

Median	27.7%	20.0%	12.4%	2.1 x	12.4 x	15.8 x	1.8 x	28.7 x	19.6 x	16.0 x	2.5 x
Mean	32.8%	17.7%	11.7%	2.3 x	16.6 x	35.1 x	2.4 x	94.1 x	21.2 x	17.0 x	3.2 x
Min	22.3%	2.3%	0.8%	0.2 x	0.9 x	1.1 x	1.1 x	3.9 x	17.6 x	13.8 x	0.3 x
Max	74.5%	28.1%	18.0%	6.2 x	50.1 x	138.8 x	4.9 x	483.3 x	27.9 x	22.3 x	7.7 x

- ❖ The Latin American region offers an extremely attractive healthcare industry given the high gross profit and EBITDA margins
- ❖ The average enterprise value of the selected Latin American stocks indicates that the healthcare sector generally trades at roughly 2x revenue with median EBITDA multiples just over 12x; however, these trading comps represent a wide array of companies from various countries and sectors within healthcare, which makes these multiples less meaningful for individual entity valuation.

Source: Bourne Partners Proprietary Research, CapitalIQ, April 2013

# Latin American Trading Performance



- ❖ Over the last five years, publicly traded Latin American healthcare companies have drastically outperformed both the S&P 500 and the S&P Healthcare Sector as a whole, most notably during the 2010 and early 2011
- ❖ Rapid growth throughout the U.S. recession allowed the Latin American healthcare industry to build the sizeable spread seen in the graph; however, slow recovery in the U.S. has recently decreased the peak 2011 spread

\*Latin American Index is comprised of the companies in the trading multiple basket from slide 18; Bourne Partners Internal Research

# Latin American Transaction Comps

Closed Date	Target	Buyer	Geographic Location	Enterprise Value	LTM Revenue	LTM EBITDA	EV / LTM Revenue	EV / LTM EBITDA
Jan-2013	Papaiz Associados Diagnósticos por Imagem S/S Ltda.	Clidec Ltda.; Fleury Centro de Procedimentos Médicos Avançados	Brazil	9.1	-	1.82	1.38	5.0
Dec-2012	Laboratorio Franco Colombiano Lafranco S.A.	CFR International SPA	Colombia	562.0	160.1	-	2.81	-
Oct-2012	Amil Participacoes SA (BOVESPA:AMIL3)	UnitedHealth Group Incorporated (NYSE:UNH)	Brazil	5,538.5	4,977.8	159.93	1.11	34.63
Oct-2012	LMA International N.V., Substantially All Assets	Teleflex Incorporated (NYSE:TFX)		246.61	-	18.72	1.96	13.17
Oct-2012	Grupo Tecnol Ltda	Luxottica Group SpA (BIT:LUX)	Brazil	141.41	11.6	-	1.17	-
Sep-2012	Sonorad I SA	Integramedica S.A.	Chile	14.7	-	-	1.06	-
Sep-2012	Clinica las Condes S.A. (SNSE:LAS CONDES)	Bethia S.A.	Chile	750.89	265.9	54.61	2.97	13.06
Jul-2012	Multilab Indústria e Comércio de Produtos Farmacêuticos Ltda.	Takeda Farmacêutica Brasil Ltda.	Brazil	270.53	75.6	-	3.86	-
Jun-2012	Laboratory Sanobiol Ltda	Cristalia Produtos Quimicos Farmaceuticos Ltda.	Brazil	48.32	-	-	0.551	-
Mar-2012	Cruz Blanca Salud SA (SNSE:CRUZBLANCA)	Cartica Capital LLC	Chile	890.23	957.0	81.62	1.05	10.24
Feb-2012	Probiótica Laboratórios Ltda.	Valeant Pharmaceuticals International, Inc. (TSX:VRX)	Brazil	86.33	41.9	-	1.88	-
Jul-2011	Cytolab Laboratório de Anatomia Patológica Citologia Diagnóstica e Análises Clínicas Ltda.	DASA Empreendimentos e Participações Ltda.	Brazil	7.12	-	1.44	1.13	4.95
Jul-2011	Laboratório de Análises Clínicas Previlab Ltda.	DASA Brasil Participações Ltda.	Brazil	8.92	-	1.86	0.605	4.8
May-2011	Diagnoson Ultra-Sonografia e Densitometria Óssea S/S, Ltda.	Fleury S/A (BOVESPA:FLRY3)	Brazil	38.26	-	4.31	2.46	8.88

Source: Bourne Partners Proprietary Research, CapitalIQ, April 2013

- ❖ The Brazilian and Chilean M&A environments have proven to be extremely fertile throughout the last couple of years due to population growth and attractive pro-business government policies favoring internal growth

Median	113.87	160.1	11.52	1.28	9.56
Mean	615.21	927.13	40.54	1.71	11.84
High	5,538.5	4,977.8	159.93	3.86	34.63
Low	7.12	11.6	1.44	0.55	4.8

NM - Not Material  
NA - Not Available

# Select Transactions

## Laboratorio Franco Colombiano S.A

- ❖ **Announce Date:** July 2012
- ❖ **Acquirer:** CFR International SPA
- ❖ **Country:** Colombia
- ❖ **Enterprise Value:** \$562 million
- ❖ **Revenue Multiple:** 2.8x
- ❖ **EBITDA Multiple:** N/A
- ❖ **Target Description**
  - Manufactures and distributes pharmaceutical, nutraceutical, nutritional supplements, and functional food products in Colombia and internationally
  - Provides anti-inflammatory products, analgesics, antihistamines, antihipertensives, vasodilators, antiulcers, hipolipemiantes, antibiotics, prokinetics, anti migraine products, ansiolitics, and anti-depressives
- ❖ **Transaction Overview:**
  - CFR International purchased all of Laboratorio Franco Colombiano Lafranco's assets for \$562 million in cash
- ❖ **Strategic Rationale:**
  - Transforms CFR into the leading pharmaceutical company in Colombia, which is one of the most attractive LatAm markets



## Amil Participacoes SA

- ❖ **Announce Date:** October 2012
- ❖ **Acquirer:** UnitedHealth Group Incorporated (NYSE:UNH)
- ❖ **Country:** Brazil
- ❖ **Enterprise Value:** \$5.538 billion
- ❖ **Revenue Multiple:** 1.1x
- ❖ **EBITDA Multiple:** 34.6x
- ❖ **Target Description**
  - Organizes, operates, and manages healthcare plans in Brazil
  - Network consists of 22 hospitals, 44 medical centers, 7 Total Care units, and 3 Postural Correction Units, as well as 3 Amil Health Rescue emergency centers
- ❖ **Transaction Overview:**
  - UnitedHealth acquired a 60% share for \$3.262 billion in cash
- ❖ **Strategic Rationale:**
  - Offers the United States' largest private insurer access to Brazil's population of over 200 million
  - Current private insurance rates are extremely low in Brazil, but growth is anticipated



## Probiótica Laboratórios Ltda

- ❖ **Announce Date:** February 2012
- ❖ **Acquirer:** Valeant Pharmaceuticals International, Inc. (TSX:VRX)
- ❖ **Country:** Brazil
- ❖ **Enterprise Value:** \$86.33 million
- ❖ **Revenue Multiple:** 1.88x
- ❖ **EBITDA Multiple:** N/A
- ❖ **Target Description**
  - Offers food supplements with a focus on sports nutrition
  - Founded in 1986 and is based in Embu das Artes, Brazil
- ❖ **Transaction Overview:**
  - Valeant purchased all of Probiótica Laboratórios' assets for \$86.33 million in cash
- ❖ **Strategic Rationale:**
  - The transaction offers Valeant an entrance into the rapidly expanding nutraceutical space, while also helping to establish a presence in one of the dominant pharmerging markets in the world



# Takeda Launches New Subsidiary in Ecuador

## Takeda Ecuador S.A.

- ❖ **Headquarters:** Quito, Ecuador
- ❖ Responsible for the sales and marketing of all Takeda products in Ecuador and will serve as a platform for the entry of a more diverse product mix from Takeda's sizeable portfolio

## Takeda Latin American Expansion

- ❖ **April 2008:** Nycomed Venezuela founded
- ❖ **November 2009:** Takeda establishes Takeda Mexico as a North American subsidiary headquartered in Mexico City
- ❖ **April 2011:** Nycomed buys Laboratorios Farmacol as its entrance into Colombia
- ❖ **May 2011:** Takeda acquires Nycomed and its operations in Argentina, Brazil, Colombia, and Venezuela
- ❖ **July 2012:** Takeda announces the acquisition of Multilab to further expand its growing manufacturing capacity in Brazil
- ❖ **March 2013:** Takeda launches newest Latin American subsidiary in Ecuador

## Strategic Rationale

- ❖ Takeda has rapidly expanded its presence in South America in order to take advantage of the rapid growth of both the regional population and economy
- ❖ As the middle class of Latin American countries continues to expand, Takeda anticipates increased healthcare spend that is largely out-of-pocket, which offers unique pricing ability



# Latin American Outlook

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# Latin American Outlook

- ❖ Double-digit CAGR expected to continue for the next five years, and we believe that a plateaued growth rate will still outpace the 1-3% growth we anticipate in the U.S. and Western Europe<sup>(1)</sup>
- ❖ Industry consolidation expected to continue as large global healthcare companies acquire smaller industry participants in order to reduce competition and enter new market segments
- ❖ As more international players move into the region, Latin American healthcare should continue to experience growth through increased availability and technological advances increasing productivity

## Market Forces Affecting Growth

### Headwinds

- ❖ As Chinese, Russian and Indian industrial growth and construction initiatives wane, commodity exporting economies could see a drastic decrease in GDP, and stymied GDP growth could reverse the positive growth trends we anticipate (we're already seeing this happening in Brazil)
- ❖ Unreliable IP protection across region
- ❖ Reference pricing becoming more prevalent throughout region, which is reducing pharmaceutical margins
- ❖ Political uncertainty in select countries pose multiple threats to companies:
  - Narcoterrorism disrupts business
  - Potential for nationalization of enterprise in Bolivarian countries
  - Shifts in government healthcare policy as new leadership groups emerge could dramatically alter the reimbursement landscape

### Tailwinds

- ❖ Brazilian pharmaceutical market growth:
  - Generics expected to grow as major brands come of patent
  - Branded pharmaceuticals may regain some lost market share as “similares” are forced off the market by regulators
  - Biosimilar growth within native firms is anticipated as government backing will help local firms deal with size and scale issues associated with biologic production
- ❖ U.S. Payers looking to reduce down-side risk of PPACA by expansion into Latin American markets
- ❖ Regional distribution access points with substantial infrastructure build-out planned
  - Colombia
  - Peru
  - Ecuador

Source: <sup>(1)</sup> IMS Health



# Regional Growth Drivers

## Brazilian Pharmaceutical Industry<sup>(1)</sup>

- ❖ Growth anticipated in the generics space as major drugs come off patent in coming years
- ❖ “Similares” regulated off the market
  - All similares must show bioequivalence by 2014, but ANVISA has said that half have yet to show bioequivalence
  - We believe a large number of similares market participants have chosen to exit the market rather than take on cost-prohibitive testing
- ❖ Consolidation of smaller family-owned businesses
  - 80% of companies are locally owned, but they only supply 30% of the market
  - As these companies are acquire others or are acquired the larger businesses will begin to enjoy economies of scale and corporate synergies, which should show up on the bottom line

## Payer Ex-U.S. Diversification

- ❖ As the effects of PPACA slowly become evident, payers will look to diversify into new territories in order to insulate themselves from down-side risk
- ❖ UNH’s acquisition of a controlling share of Amil Participacoes in Brazil is a perfect example of this strategy (*see slide 21*)
- ❖ Latin American markets provide payers with a unique opportunity due to:
  - Limited government involvement
  - High private out-of-pocket pay ratio offers growth potential
  - Relative lack of competition currently in the market
- ❖ Large multi-channel providers may leverage PBM introduction to lubricate potential retail pharmacy entrance

## Regional Access Distribution Points

- ❖ Several companies currently use Colombia as a staging ground for distribution throughout the Andean region
- ❖ Peru and Ecuador are also attractive locations to initiate region-wide distribution due to the multiple countries they border as well as their sizeable coastlines and shipping industries

Source:

<sup>(1)</sup> ANVISA, WHO, World Bank, Duetsche Bank

# Select Opportunities for Growth

## Peru

- ❖ Peru's GDP in 2012 was just over \$200 billion, and is expected to grow by 43% over the next 5 years to about \$286 billion in 2017. Population is projected to grow by 8% over the same period<sup>(1)</sup>
- ❖ Peru is ranked 43 on the Ease of Business rankings, which is the second best rank in the region behind Chile<sup>(2)</sup>
- ❖ Rapid population growth, geographic location (Long coastline and borders 5 countries), and large percentage of the population remains underserved

## Chile

- ❖ Chile's economic output will continue to be positively disproportionate to its population. GDP will grow almost 44% over the next five years, whereas population will grow a modest 4.2%<sup>(1)</sup>
- ❖ Chile is the highest ranked country in the region on the World Bank's Ease of Business rankings at 37 due to its fair regulatory policies and an infrastructure that supports economic development<sup>(2)</sup>
- ❖ A National Health Strategy is in place to drive Chilean healthcare to the forefront of Latin American healthcare by 2020

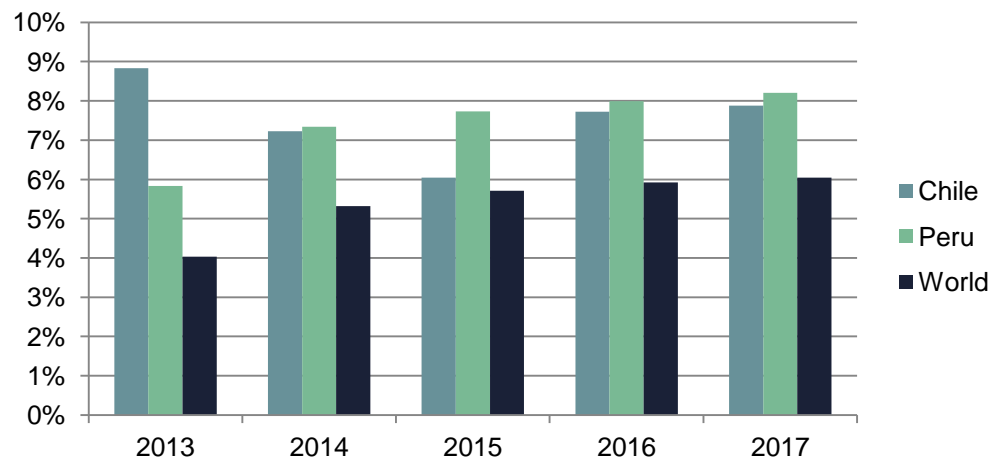
Source:  
 (1) International Monetary Fund  
 (2) Economist Intelligence Unit

## Country

## 5 Year GDP Growth

<b>Chile</b>	<b>43.81%</b>
<b>Peru</b>	<b>43.01%</b>
Brazil	34.19%
Colombia	31.95%
Mexico	28.14%
Argentina	16.36%
Venezuela	10.82%
All of Latin America	31.15%

## Forecasted GDP Growth



## **In Summary**

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## Regional Summary

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- ❖ Removal of “similares” from the market and increased consumer confidence in generic drugs should drive growth within the generic and branded generic markets region-wide
- ❖ Most healthcare sectors within the region are highly fragmented, but as foreign competition begins entering the market through acquisition, more local firm consolidation will be required to compete
- ❖ As GDP and the middle classes continue to grow, expect sizeable gains in revenue as well as profit as technological advances pair with market growth to the benefit of aggressive firms within the region
- ❖ As government involvement in healthcare continues to increase, political stability in the region will play a major role in continued growth

# Firm Overview

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# Bourne Partners Information

## Life Sciences Merchant Bank

- ❖ Investment banking advisory
- ❖ Direct investing
- ❖ Operational and management consulting

## Segmentation

- ❖ Healthcare services
- ❖ Specialty pharmaceuticals
- ❖ Consumer Health
- ❖ Medical technology (devices)
- ❖ Distribution

## Advisory Services

- ❖ Mergers & Acquisitions
  - Company and product focus
  - Primarily sell side with select buy side assignments
  - \$10 – 250 million transaction focus
- ❖ Business Development Support Services
  - In/out-licensing of late stage and approved products
  - United States, European and Asian companies focused on partnering locally or in international markets
- ❖ Capital Raising
  - Mature spaces of healthcare (OTC, Specialty Pharmaceuticals, Generics, Medical Devices, Services)
  - \$10 - 250 million raises
  - Debt and equity
  - Active calling effort on 75+ healthcare focused private equity and venture capital groups

## Geographic Coverage



*Dots represent the countries where the Bourne Partners team has transaction experience*

# Bourne Partners Portfolio Companies



- ❖ Single-point managed partnership solution for maximizing sales across the diverse markets of Latin America
- ❖ Customized solutions to meet the needs of each partner depending on product type, stage of commercialization, and markets of interest
- ❖ Experienced legal department works with local regulators, agencies, and partners to ensure time-efficient registration of each product
- ❖ Market-specific distribution, promotion and sales strategies for new-to-market and existing products



- ❖ Named patient and compassionate use distribution
  - Creating awareness and fulfilling demand prior to product registration
  - Providing fast and reliable access to pharmaceuticals for government agencies in heavily regulated, third world and emerging markets
- ❖ Pre-approval marketing and sales
- ❖ International tender management
- ❖ Clinical trials and comparator sourcing
  - Directly or indirectly sourcing comparator products from global sources
  - Offering transparency and up-channel reporting
  - Providing sourcing, distribution and management services to individual sites on an "as needed" basis



*Dots represent the countries where Bourne Partners portfolio companies conduct business within Latin America*

# Bourne Partners Information

## Direct Investing

- ❖ Enterprise values of \$10 – \$250 million
- ❖ Direct portfolio companies
- ❖ Co-invests with other sponsors
- ❖ Buyout and venture fund commitments

## Senior Deal / Operations-focused Resources

- ❖ Senior level attention and involvement in every project
- ❖ Mix of investment professionals and healthcare executives
- ❖ Over \$5 billion in transactions completed globally
- ❖ Operations members provide enhanced support across investment life cycle and can fill management roles on transitional or permanent basis

## Global Perspective

- ❖ Active contact and tracking of pharmaceutical and nutraceutical companies worldwide, with particular focus in the following regions:
  - United States
  - Latin America
    - Transaction experience or partner relationships in 15 countries within the region

## Select Advisory Clients & Involved Parties



AZUR PHARMA



APTALIS™



## Representative Active Role Investments



## Representative Passive, Fund, & Co-Investments

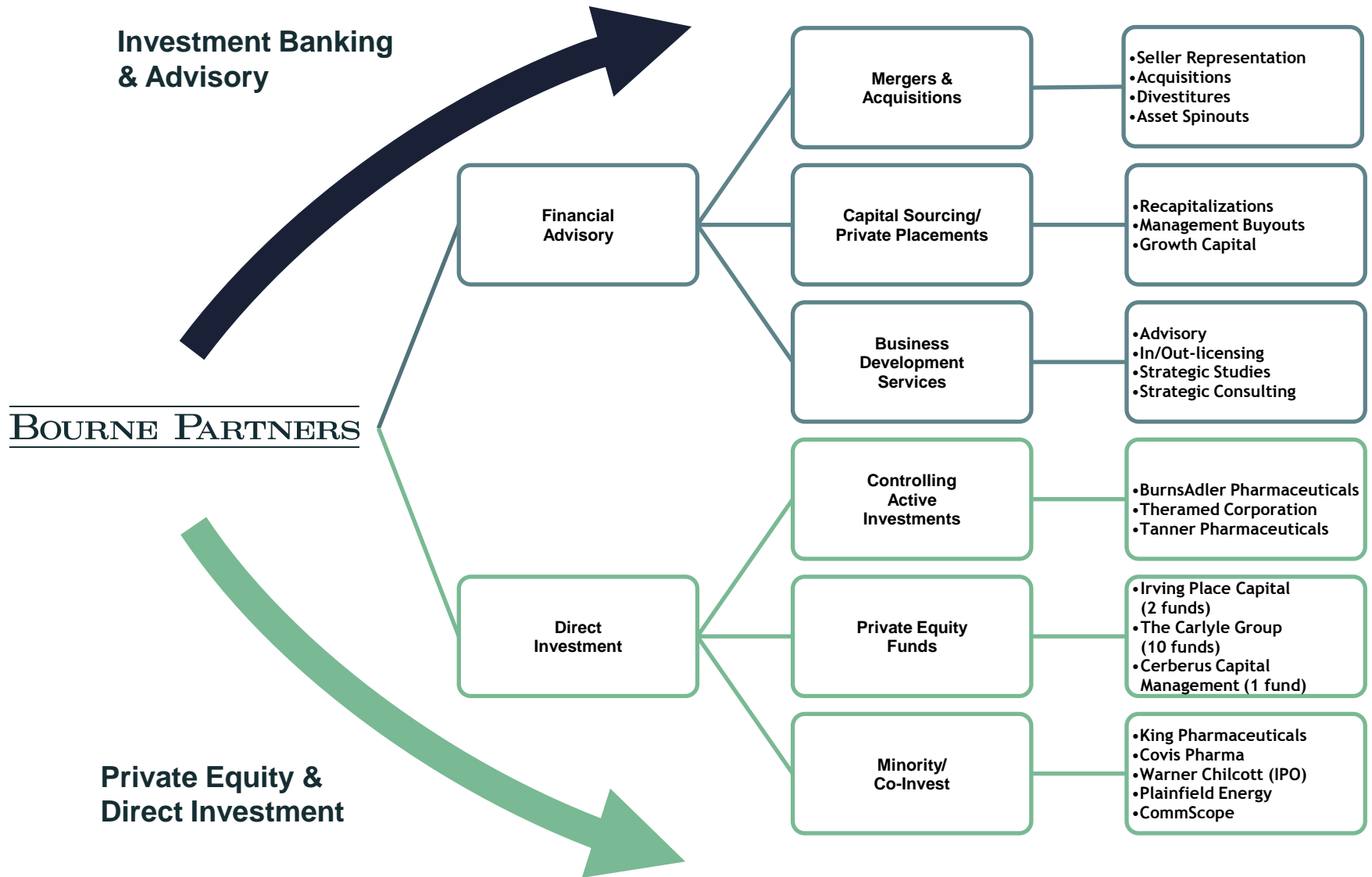


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# Bourne Partners Structure



# Senior Team

**Bourne Partners is comprised of experienced investment professionals, healthcare executives, and operating partners**



**Banks Bourne**  
Chief Executive Officer



**Minor Hinson**  
Chief Investment Officer



**Jeremy Johnson**  
Managing Director



**Bill Taylor**  
Director of Legal Affairs



**Steve Scalia**  
Operating Partner



**Molly Bourne**  
Director

- ❖ Over 50 years of combined pharmaceutical, medical device, biotechnology, and life sciences healthcare experience
- ❖ Over 60 years of combined investment banking and private equity transaction experience
- ❖ Transactions completed in more than 35 countries
  - Mergers & Acquisitions
  - Licensing Agreements
  - Product Divestitures
  - Distribution Agreements
  - Corporate Spin-offs
  - Capital Raising
  - Strategy Consulting
  - Fund Management
  - Direct Investing

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