AREA STUDI MEDIOBANCA

# ITALIAN CHEMISTS AND PHARMACIES: MARKET AND PUBLIC FUNCTIONS

*The Italian market is the fifth largest in Europe by size*
*There is an extensive network of pharmacies in Italy, with one chemist for every 2,977 inhabitants (vs a European average of 3,245), but by average turnover (€1.2m, down 12.5% on 2015) Italy lags behind Austria, France and Germany*

*Sales rose by 8.1% in 1H 2022 (**€13.1bn**)*

*Sales of supplements were up 33% in 2021on 2015*

*There is an increasing preference for generic over brand name drugs, the former accounting for 30.8% of total sales (vs 17.2% in 2010), and the latter for 24% (versus 41.3% in 2010)*

*Non-prescription drugs: increasing competition from the outside the channel, with prices higher at chemists (€9.9) than in non-dispensing pharmacists (€9) or at supermarkets (€7.4)*

*Pharmacy chain stores are growing, offering capital, managerial experience, a more extensive range of services, and closer integration with distributors*

*Towards a service-based, omnichannel model of chemist store: online sales now account for 5% and Private Label for 1.5% of the market, while services are up 79% on 2020*

Milan, 16 September 2022

The **Mediobanca Research Area** has presented the third in a series of reports on **healthcare industry** (the first two being on **Nutraceuticals** and the **MedTech** sector). This time the focus is on the **chemists and pharmacies** sector in Italy, compared with certain other European countries. The survey also includes a focus on the leading networks of pharmacies.

The full survey is available for download from www.areastudimediobanca.com.

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## The healthcare market: more than just medicines and pharmacies

**The healthcare market** consists of medicines plus a series of other health-related products, such as supplements, mixtures for use in preparing herbal medicines, homeopathic remedies, and medical/surgical substances (jointly, the "Listed Products"), nutritional products, para-pharmaceutical products, and beauty and hygiene products. **In 2021 the value of the Italian healthcare market was estimated at €26.1bn**, €16.3bn of which generated by medicines and €9.8bn by non-medicinal products. If we narrow our focus to spending to acquire medicines, split between prescription drugs (€13.9bn) and non-prescription drugs (€2.4bn), **Italy ranks fifth in Europe**, behind Germany, France, the United Kingdom and Spain, and ahead of Austria. In the 2018-21 period, all healthcare market spending items reflected decreases or were at best flat, with the single exception of non-pharmaceutical products, which grew by 8.6%. The overall spending in this category was driven by Listed Products (sales up 9.5% on 2018), para-pharmaceutical products (up 24.6%), and nutritional products (up 3.3%), while sales of beauty and hygiene products were down 2.6%. **The healthcare market in Italy is underpinned by a network consisting of 19,901 chemists in 2021,** plus **4,046 non-dispensing pharmacists, and 462 counters in supermarkets**, which in 2006 were authorized to sell medicines without prescriptions to the general public. All these channels have seen growth in the number of POS since 2010, the most substantial being in supermarket counters (up 68%) and non-dispensing pharmacies (up 61.1%), compared with traditional chemists, which have seen growth of 11.8%, but which still hold the lion's share of the non-prescription drug market, with a market share of some 90%. However, the traditional chemists store channel also reflect the highest unit prices for non-prescription drugs, with an average of €9.9, due to the increased range of products on offer (the equivalent figure for non-dispensing pharmacies is €9, and for supermarket counters €7.4).

## The Italian pharmacy system

**The network of chemists and pharmacies in Italy is extensive**. Since 2015 the number of stores has increased by 9.3%, driven by growth in the number of private pharmacists (up 10%), while the public chemists' stores have increased more slowly (by 2.7%). **The number of inhabitants per chemist in Italy has decreased from 3,340 in 2015 to 2,977 in 2021 (down 10.9%)**, which is lower than the EU average of 3,245 inhabitants per chemist, and the global average, which is 3,600. **The aggregate turnover posted by Italian chemists and pharmacies in 2021 was €24.4bn**, down 4% since 2015. This reduction in sales has affected all segments, from prescription drugs (down 9.3%), which account for 56.9% of total sales, to non-prescription drugs (down 5.3%, which are stable at 9% of the market), to all the non-pharmaceutical segments, with the single exception of Listed Products, which, driven primarily by supplements, have reported a 32.9% increase on 2015. The combination of declining sales and the increase in the number of pharmacies has driven **a material reduction in average total sales per pharmacy, which has decreased from €1,399m in 2015 to €1,228m in 2021, a fall of 12.2%**.

**The conflicting trends in aggregate total and unit sales is explained more by the change in the composition of demand and the lower volumes sold,** than by the changes in prices. With regard to the former, the percentage of total sales accounted for by brand name drugs, which tend to have the highest prices, decreased from 41.3% in 2010 to 24% in 2021, while those with expired brand names rose to 45.2% (from 41.5%). Conversely, the share accounted for by sales of **generic drugs almost doubled, from 17.2% in 2010 to 30.8% in 2021. Regarding the pricing trend** within the pharmacy system, comparison **between the figures for 2018 and 2021 show an increase of 3.2% (average price €9.6)**, with the highest price increases reported for non-prescription drugs (up 8.8%) and Listed Products (up 4%), the latter of which reflects the price increases for medical/surgical substances (up 5.6%) and supplements (up 4.6%). The latter are the category which reflects the highest unit price, of €16 in 2021.

**In the first six months of 2022, the Italian chemists and pharmacists delivered significant growth, both in terms of aggregate sales (up 8.1%), which reached €13.1bn,** and in the number of items sold (up 8.2%), a trend which remains positive even net of the Covid-related component (i.e. lateral flow tests carried out at chemists): up 6.1% in value terms and up 6.6% in volume terms.

## Italy versus certain other EU countries

The **average turnover per chemist,** which in Italy is currently €1.2m, compares with €1.9m in France and €3.3m in Germany and Austria. Only Spain with an average turnover of €1m per pharmacy shows a lower figure. The lower size of the Italian pharmacies is also reflected at the level of **headcount**, which averages 4.5 employees per POS in Italy, compared with 5.9 in France, 8.7 in Germany, and 12.4 in Austria, as against 4.1 in Spain. The calculation in terms of **sales per square metre**, albeit problematic, sees France once again in first place (€22,300 per squ.m), followed by Germany (€19,700), with Italy (€16,700) aligned with Austria (€16,400) and Spain lagging behind (€14,300). Conversely, the **Italian average floor space** of approx. 74 squ.m, compares with 165 squ.m for the largest European countries. With regard to **average spending per inhabitant**, Italian chemists lag far behind their European counterparts: a figure of €413.20 per annum places Italy firmly at the bottom of the pile, with Germany heading the rankings with average spending of €733. From an earnings perspective, the Italian limited companies carrying out retail sales of medicines and drugs with turnover of above €5m show an **Ebitda margin of 9.2%**, rising to **10.9% for firms with turnover in the €3-5m range**. This reflects profitability basically **in line with that of the pharmacies located in the other leading European countries**: 9.9% in Austria, 12.3% in France, and 12.4% in Germany. In certain international markets, chemists and pharmacies have been sold at multiples of around 7x Ebitda.

## New players in the Italian panorama

**Italian Law 124/2017 allowed limited companies to take stakes in the ownership of pharmacies**, with the sole condition that such stakes may not exceed 20% of the pharmacies operating in the same region. This puts Italy on the same footing as other European countries that have adopted a similar stance, such as Belgium, Norway, the Netherlands and the United Kingdom, but at the same time distinguishes it from those nations that have maintained exclusive ownership for the pharmacists (France, Germany and Spain, among others). In the aggregate, **the leading networks of pharmacies operating in Italy**, both networks proper and those joined together in associations, represent 24% of the total number of pharmacies in operation, and have a combined **turnover of some €6.5bn**, or 26.8% of the national total. Affiliated chemists, of which the individual pharmacies retain independent ownership, represent 20% of the total by number and 21.1% of the total by turnover, while proprietary chemists, in which a holding company owns the majority of the stores' capital, account for 4% and 5.7% respectively.

## A model that continues to develop

In the near future a more **service-based and omnichannel model for pharmacies** is expected to become more established. In 2021, a total of 5,894 Italian pharmacies dispensed diagnostic services, an increase of 10% on 2020, with a total of 250,946 services provided, up 79% on the previous year (on average this translates to 43 services being provided by each individual pharmacy in the twelve months). In 2021, 64% of these services were ECGs (up 87% on 2020), 22% involved fitting Holter heart monitoring devices (up 69%), while the other 14% involved 24-hour blood pressure monitoring. The provision of such services poses some major challenges for pharmacies in terms of professional training, co-operation with general practitioners, time commitment and also availability of space within the POS themselves. In Italy, revenues from online sales by pharmacies (both actual stores which have their own portals and exclusively digital operators) **totalled €437m in 2021, up 14% on the €383m reported in 2020**, which in turn were up 66% on the €230m reported in 2019. This means that growth of 90% was recorded between 2019 and 2021. The data for 1Q 2022 confirm the growth in online sales by Italian pharmacies, which totalled €178m for the three months, up 24.8% on the same period last year. **If this trend continues, the digital channel is projected to represent 5% of total sales,** a figure which is still far off the 23% reported by Germany and even the 10-15% of the other leading European countries. In Italy the average discount offered on products sold via the online channel can be as high as 33% off the price offered through the physical channel.

One product line which is still marginal in Italian pharmacies but which reflects significant potential for growth is **Private Label (PL)** products. In 2021 these products accounted for around 0.6% of total sales (1.5% excluding prescription drugs), generating turnover of some €155m, up 72.5% on 2019. By way of comparison, PL products in large-scale retail operations focused mainly on food (i.e. supermarkets) account for 19.8% of total sales. The popularity of PL products bought in pharmacies is shown by the growth in unit prices (which have increased by 13% since 2019) and the number of brands offered (up 37%).

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