

European Markets



Stefano Pessina
Deputy Chairman

Alliance UniChem is a major presence in European healthcare markets. Our major strength is our skill in understanding the policies and requirements of pharmacists, governments, manufacturers and regulators, all of whom are our natural partners. In this review I comment on the major market trends we have seen across Europe, and discuss our position in a rapidly consolidating and vital sector.

Wholesalers in Europe are well used to managing two opposing forces in their markets; increasing per capita drug spending and attempts by national governments to alleviate the cost burden on taxpayers. Wholesalers have always needed to manage their businesses within this environment so as to achieve improving performance regardless of these actions by governments. Although we are some time away from a single European drug market, we have seen further evidence of common trends emerging in 1999. These trends are generally helpful since they increase the opportunities we have for capturing synergy benefits from our span of pan-European businesses.

Market growth in the territories in which we operate has exceeded our earlier forecasts for 1999. Average growth for all our markets was 8 per cent, with the Portuguese market the highest at 13 per cent and the Czech market the lowest at 3 per cent. Alliance UniChem's spread of interests in different markets gives us improved resilience to the actions of any individual European government.

A further common trend is the gradual liberalisation of pharmacy ownership. Multiple chains are currently permitted in the UK, Republic of Ireland, Switzerland and Holland and in many countries in Eastern Europe. Regulatory changes permitting such chains are under consideration, or have been formally proposed, in a number of other European countries including in Scandinavia. Our Group's extensive skills and experience in the management of multiple pharmacy make us well positioned to exploit this development, whilst allowing us to share some of those management skills with our independent pharmacy customers.

Over the last two years we conducted a comprehensive review of the potential impact of the internet on European healthcare markets. The increased penetration of internet access in Western Europe and the long-term trend towards deregulation of our markets mean that we are now presented with significant opportunities, which could in the longer term lead to a radical transformation of our Group. However, the promotion and advancement of the role of pharmacists and our pharmacy customers is necessarily at the core of our e-business strategies. Pharmacists play a crucial role in the provision of healthcare to citizens and we believe it is neither safe nor commercially viable to operate a healthcare delivery business without their involvement. None of our e-business proposals compromise or undermine this role, and we are currently engaged in a widespread consultation exercise with our customers across Europe to finalise operational plans in a number of specific areas. We intend to announce further initiatives in e-business following that consultation exercise.

The review considered five distinct business sectors: services to manufacturers, services to pharmacists; the prescription medicines market; the over-the-counter market and our related healthcare businesses.

E-commerce will have a limited and gradual impact on our sector due to the unique constraints imposed by the regulatory regimes applying to the supply of medicines. Currently, the remote dispensing and mail order supply of prescription medicines is not permitted anywhere in Europe and some over-the-counter medicines face similar restrictions, leaving only the relatively smaller market for other over-the-counter products. Due to the disadvantageous value to weight relationship of these products, it is unlikely that a pure e-commerce operation could survive by relying only on that category of merchandise. The Achilles heel of the e-commerce business models in prescription medicines is the ability to obtain reimbursement. This has meant that mail order and internet distribution businesses have not developed in our sector, and hence threats to our existing revenue streams and asset base by the emergence of alternative channels are low. Electronic prescriptions and electronic reimbursement will require significant capital investment by both governments and industry players alike. It is likely that co-operation, to devise and implement rigorous standards and safety procedures, between authorities, pharmacists, wholesalers and manufacturers will be the route to establishing the feasibility of e-commerce for prescription medicines. Highly efficient, low cost distributors of medicines will be best placed to contribute to that development. We intend, where cross-industry consultation structures are established, to play a full part in establishing those standards and procedures, always safeguarding the interests of pharmacists. We do not intend to promote, support or lobby for liberalisation which is likely to compromise the role of our pharmacy customers and expose patients to danger. Until such changes to existing regulations are introduced with the broad support of healthcare professionals, we see no requirement or opportunity to develop e-commerce structures for prescription pharmaceuticals involving patients. However, implementation of our plans in other business sectors

will position us well, to protect our customers' interests and exploit our own capabilities, should these regulations change.

Consolidation of the distribution sector is an inevitable consequence of the drive towards more homogeneous pharmaceutical markets. More efficient and lower cost distribution, at both a national and a European level, will be a natural result of this consolidation. We believe that groups, like ourselves, with pre-wholesaling, wholesaling and pharmacy retailing expertise, will be the most attractive partners for those national wholesalers who are presently independent. This has been demonstrated in 1999 by our expansion in Switzerland, Spain and the Czech Republic. Pan-European groups with this spread of skills will be better able to meet the demands of the manufacturers in this integrated market, to continue to add value to pharmacists' businesses and to benefit patients.

To strengthen this positioning, we believe it is our role to search for and develop new services that are of value to our manufacturer and pharmacy partners. This has involved us developing businesses in related healthcare sectors such as information services, homecare and pre-wholesaling. We intend to pursue further developments in this direction including significant e-business activities. We also aim to continue our geographic expansion, both within and beyond our current territories. Following our very successful entry into the Czech market, we are studying carefully the rapid development of other markets in Eastern Europe and would be prepared to invest if market conditions and risk levels are satisfactory.

We are confident that we have the right strategies, competences and resources to continue the development of the Alliance UniChem Group.



Stefano Pessina
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