

PHARMACEUTICALS

19 August 2020

Expensive e-pharmacy deals; Neutral impact for pharma majors

Media articles suggest growing consolidation in the e-pharmacy chain, i.e. Reliance-Netmeds and PharmEasy-Medlife. Though e-channels remain a leading disruptive trend within the pharma supply chain, we see multiple grey areas that could limit rapid penetration and margin synergies on the acquired assets. This trend is neutral-to-slight positive for manufacturers in long run.

Deal valuation at 5-7.5x EV/Sales: As per media reports, Reliance Industries' retail subsidiary is acquiring over 60% stake in Vitalic Health including Netmeds for US\$ 83mn (FY20 revenue: US\$ 29mn), implying a trailing EV/Sales valuation of 5x. Secondly, Medlife and PharmEasy are reportedly in talks for a merger, wherein Medlife will own 19.6% of the combined entity valued at US\$ 1-1.2bn (Medlife+PharmEasy FY20 revenue: ~US\$ 170mn), implying trailing EV/Sales of 7-7.5x. Sales for both Medlife and PharmEasy grew 2.5x in FY20 over FY19. Most of these companies have huge PAT losses ranging from 1-1.4x per million of sales. Amazon has also launched its e-pharmacy business last week in Bengaluru with plans to foray into other metros.

Implications – neutral to manufacturer P&L: Online pharmacies account for ~5% of the US\$ 19bn India pharma market (vs. ~2% in 2016) and are expected to have 15-16% share in the next 10 years, per Frost & Sullivan. While this is an important disruptive trend, grey areas could limit scalability, viz. concentration of brand building power with doctors and MRs, ill-defined laws on e-pharmacy, risk of spurious drugs, and deficient quality benchmarks vs. developed markets.

Thus, pharma companies may selectively choose to diversify channels besides the offline mode. Cost saving on field force is unlikely to be material, but two key positives would be: (1) improved drug access – volume push, especially in OTC and nutraceuticals, though the prescription space will be difficult, and (2) data analytics for better competitive outcomes for manufacturers.

Takeaways from interaction with pharma majors: (1) Margin benefits from a shift toward e-pharmacy will be low given that doctors/MRs remain key to new prescription generation. (2) Madras High Court has already lifted the stay on sale of drugs by e-pharmacies (suit filed by AIOCD in Oct'18), implying a positive government stance. (3) Ambiguity in health data sharing under the Draft PDP (Personal Data Protection Bill) poses a risk to privacy. (4) With rising M&A and a conducive demand climate, the government may be compelled to create an enabling regulatory environment in the near term.

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|-----------|--------|
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| ALPM IN | BUY |
| ALKEM IN | BUY |
| ARBP IN | BUY |
| CIPLA IN | BUY |
| DIVI IN | REDUCE |
| DRRD IN | ADD |
| LAURUS IN | BUY |
| LPC IN | ADD |
| SUNP IN | REDUCE |



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