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Analysis of enterprises in the pharmaceutical sector 2012-2016

7 March 2018

Banco de Portugal updates today the *Central Balance Sheet Study | 25 – Analysis of enterprises in the pharmaceutical sector* with information on the economic and financial situation of enterprises in the pharmaceutical sector^{1,2} between 2012 and 2016.

This information is supplemented with data for the end of 2017 on loans granted by the financial sector.

The results are broken down by size class – microenterprises, small and medium-sized enterprises (SMEs) and large enterprises – and economic activity segment ('pharmaceutical industry', 'wholesale of pharmaceutical goods' and 'retail sale of pharmaceutical goods'), and compared with results for total enterprises.

This study was published for the first time in 2016, featuring information for the 2010-15 period.

Structure and dynamics

The pharmaceutical sector comprised approximately 4 thousand enterprises, mostly microenterprises. 70 per cent were part of the 'retail sale of pharmaceutical goods' segment. 'Wholesale of pharmaceutical goods' generated 64 per cent of turnover.

In 2016 the pharmaceutical sector comprised approximately 4 thousand enterprises (1 per cent of total enterprises in Portugal). The sector accounted for 3 per cent of turnover and 1 per cent of the number of employees in total enterprises in Portugal. This sector continued to be as relevant as since 2012.

The number of active enterprises in the sector under review rose by 0.8 per cent in 2016 from the previous year (0.6 per cent increase in total enterprises) (Chart 1). 12 new enterprises were created for every 10 enterprises that ceased activity (similarly to total

enterprises), which, nonetheless, was below that seen in previous years, when the sector under review posted birth/death ratios of close to 2.

'Retail sale of pharmaceutical goods' had the largest share of enterprises in the sector (70 per cent) and number of employees (49 per cent). Approximately one-quarter of the sector's enterprises was part of the 'wholesale of pharmaceutical goods' segment, which accounted for 64 per cent of turnover. Enterprises in the 'pharmaceutical industry' generated 11 per cent of turnover and accounted for 18 per cent of the sector's employees (Chart 2).

The sector mostly comprised microenterprises (79 per cent), although SMEs (21 per cent) were more representative when taking into account turnover and the number of employees (46 per cent in both cases) (Chart 3).

The head offices of the sector's enterprises were mostly concentrated in Lisbon (36 per cent) and Porto (15 per cent), where more than three-quarters of turnover of the pharmaceutical sector was generated in 2016.

Activity and profitability

Turnover increased by 2.4 per cent in 2016, with positive contributions from the 'retail sale of pharmaceutical goods' and 'wholesale of pharmaceutical goods'. EBITDA decreased by 7 per cent.

Turnover in the pharmaceutical sector increased by 2.4 per cent between 2015 and 2016 (2.1 per cent in total enterprises), losing some momentum since 2013. These developments were positively influenced by the 'wholesale of pharmaceutical goods' and 'retail sale of pharmaceutical goods' (1.2 p.p., in each case associated

Chart 1 • Demographic indicators

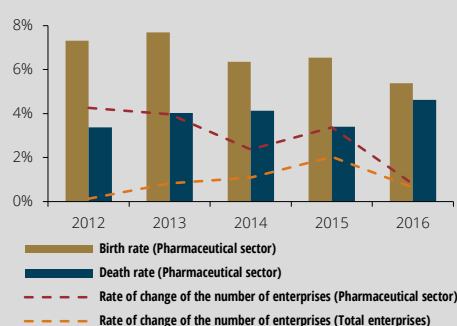
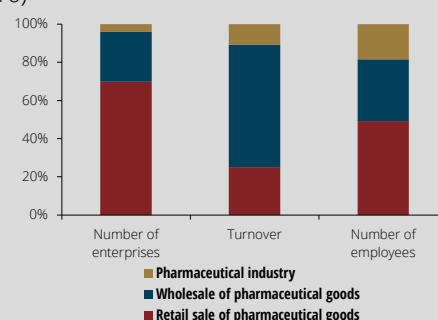


Chart 2 • Structure | By economic activity segment (2016)



with 1.9 and 4.8 per cent growth in their turnover). The contribution from the 'pharmaceutical industry' was marginally negative (0.1 per cent reduction in its turnover).

By size class, turnover in large enterprises and SMEs increased by 3.9 and 2.8 per cent respectively. In microenterprises, it declined by 2.1 per cent.

In 2016, €1 in every €10 of the sector's turnover originated from the external market (€2 in every €10 in total enterprises), similarly to 2015. Indeed, the domestic market was the key driver of turnover in 2016, with a contribution of 2.4 p.p. to the total increase (the contribution made by the external market was marginally negative, for the first time in the period under review) (Chart 4). The differential between the export component of turnover and the import component of purchases and SES (supplies and external services) was negative in 2016, corresponding to 17 per cent of turnover in the sector under review (1 per cent positive differential in total enterprises).

Also in 2016, 4 in every 100 enterprises in the sector were part of the export sector³ (6 in every 100 in total enterprises). These enterprises generated 14 per cent of turnover and accounted for 17 per cent of employees in the sector in 2016 (34 and 23 per cent respectively in total enterprises). In the 'pharmaceutical industry', 1 in every 5 enterprises were part of the export sector. As a whole, exporting enterprises accounted for 77 per cent of turnover and 74 per cent of employees in this segment.

EBITDA in the pharmaceutical sector decreased by 7 per cent in 2016 (7 per cent increase in total enterprises). This development was due to the negative contribution from large enterprises (6.7 p.p.)

chiefly following an increase in impairments from receivables.

By economic activity segment, the 'wholesale of pharmaceutical goods' and the 'pharmaceutical industry' contributed to a decline in the sector's EBITDA (by 7.3 and 1.3 p.p. respectively). The 'retail sale of pharmaceutical goods' made a positive contribution of 2.1 p.p., associated with 7.5 per cent growth in its EBITDA.

More than half of the sector's enterprises (55 per cent) posted positive changes in EBITDA in 2016, similarly to that seen in total enterprises. This share fell by 6 p.p. from 2015 (1 p.p. reduction in total enterprises) (Chart 5). However, 1 in every 5 enterprises posted negative EBITDA in 2016 (19 per cent), a share, nonetheless, lower than in total enterprises (32 per cent).

In 2016 the sector generated net income to the amount of €9 for every €100 of equity, i.e. €1.8 more than in total enterprises

The return on equity in the pharmaceutical sector stood at 9 per cent in 2016 (3 p.p. less than in 2015). Indeed, the differential between the sector's profitability and profitability in total enterprises in 2016 (1 p.p.) was the lowest in the period under review (Chart 6). The 'retail sale of pharmaceutical goods' and the 'pharmaceutical industry' had the highest profitability levels in 2016: 11 and 10 per cent respectively. In the 'wholesale of pharmaceutical goods', profitability stood at 8 per cent. By size class, SMEs were the most profitable (11 per cent, i.e. 1 and 3 p.p. above microenterprises and large enterprises respectively).

The operating margin (EBITDA/Revenue) in the pharmaceutical sector was 7 per cent in 2016 (10 per cent in total enterprises). The net margin (Net income/Revenue) amounted to 3 per cent (4 per cent

Chart 3 • Structure | By size class (2016)

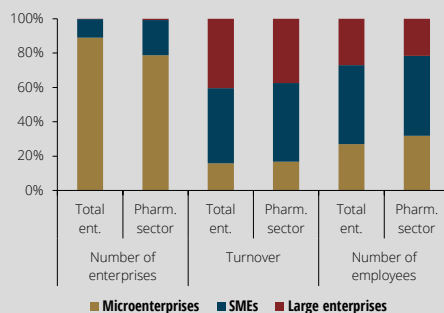


Chart 4 • Turnover | Contributions from the external and internal markets (p.p.) to the annual growth rate (%)

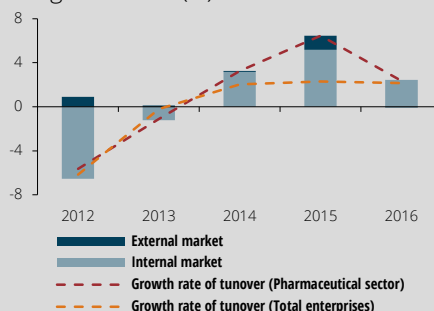


Chart 5 • Share of enterprises with EBITDA growth

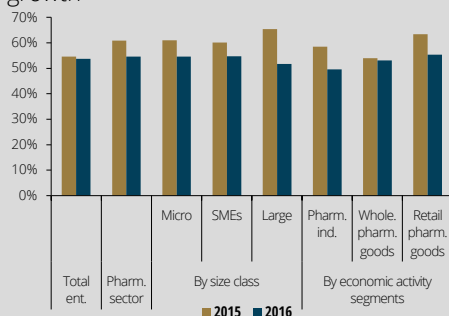
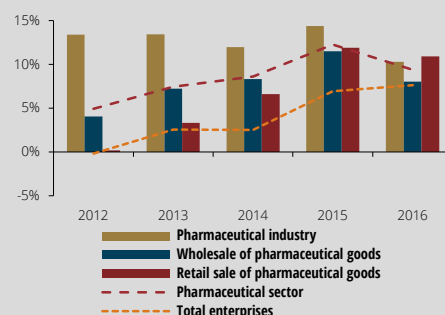


Chart 6 • Return on equity



in total enterprises), which means that for every €100 in revenue, €3 were generated in net income (Chart 7). This contrasts with that seen in previous years, when despite an overall lower operating margin, the sector posted higher net margins than total enterprises. Between 2015 and 2016 the operating and net margins of the pharmaceutical sector decreased by 0.6 and 0.9 p.p. respectively, in contrast with 0.5 and 0.4 p.p. increases in total enterprises.

The 'pharmaceutical industry' had the highest margins in 2016: 17 per cent operating margin and 7 per cent net margin; in the 'wholesale of pharmaceutical goods', the margins stood at 4 and 2 per cent respectively.

Financial situation

The pharmaceutical sector was less leveraged than total enterprises. Intra-group financing and other liabilities contributed on a larger extent to an increase in liabilities.

The capital ratio of the pharmaceutical sector stood at 41 per cent in 2016 (32 per cent in total enterprises), similarly to 2015 (Chart 8). This indicator was higher in SMEs (44 per cent) and large enterprises (41 per cent) than in microenterprises (38 per cent). By economic activity segment, the 'pharmaceutical industry' and the 'retail sale of pharmaceutical goods' had higher capital ratios (46 and 42 per cent respectively). However, the dispersion of the capital ratio among 'pharmaceutical industry' enterprises was higher; half of these enterprises had a capital ratio below 35 per cent in 2016.

Liabilities in the pharmaceutical sector increased by 2 per cent in 2016 (0.1 per cent in total enterprises) (Chart 9). This change was mostly due to positive contributions from intra-group financing and other

liabilities (1 p.p. in both cases). The other components made a residual contribution to changes in liabilities.

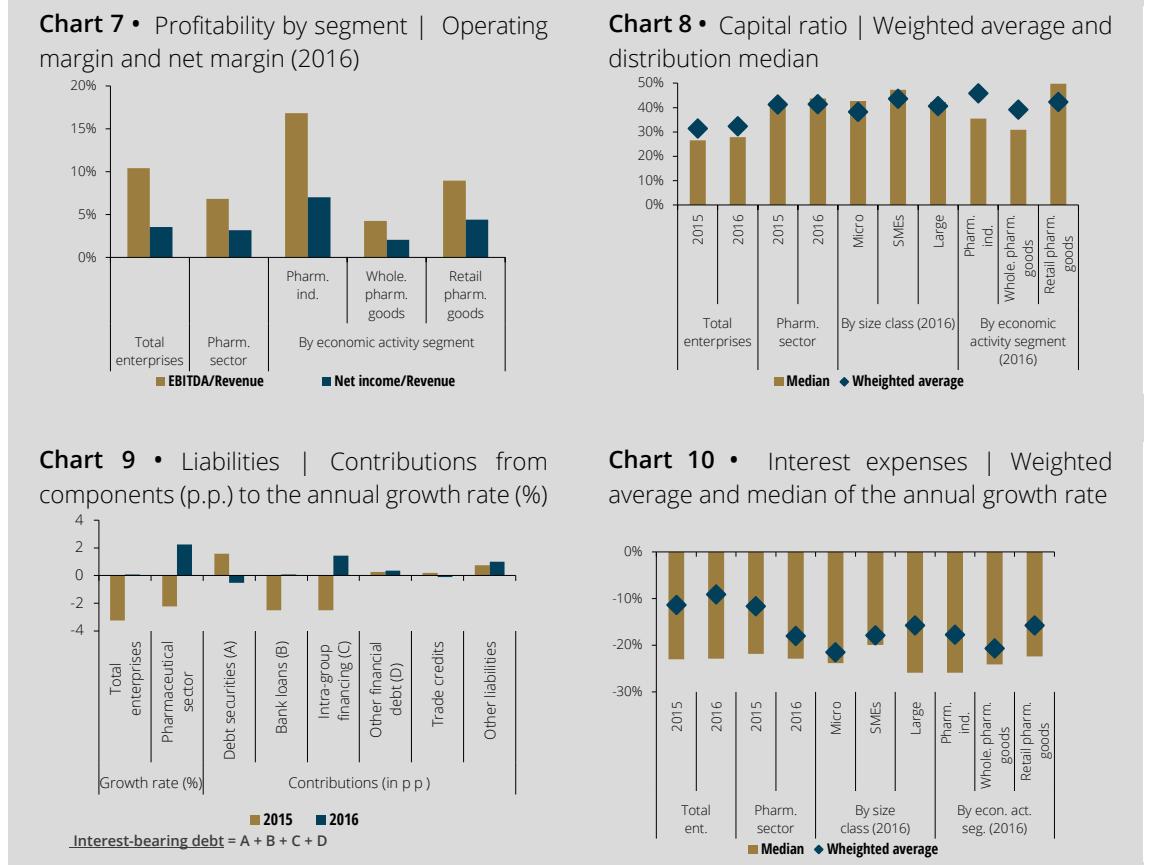
Interest-bearing debt accounted for 42 per cent of total liabilities in the pharmaceutical sector in 2016, i.e. 15 p.p. less than in total enterprises. This type of debt was more relevant in the 'pharmaceutical industry' and the 'retail sale of pharmaceutical goods' (52 per cent in both cases); in the 'wholesale of pharmaceutical goods', interest-bearing debt corresponded to 33 per cent of liabilities.

Decrease in interest expenses contributed to a reduction in financial pressure

Interest expenses in the pharmaceutical sector decreased, on average, by 18 per cent in 2016 (9 per cent in total enterprises) (Chart 10). This was broadly based across size classes and economic activity segments. The decrease was more substantial in microenterprises and in 'wholesale of pharmaceutical goods' (21 per cent in both cases). The reduction in interest expenses was lower in large enterprises and in the 'retail sale of pharmaceutical goods' (16 per cent in both cases), although half of the enterprises posted a decline in interest expenses of more than 26 and 22 per cent respectively.

Despite a reduction in EBITDA, the decrease in interest expenses in 2016 led to a decline in financial pressure (1 p.p. from 2015). In 2016, for every €100 of EBITDA generated by the pharmaceutical sector, €8 were consumed by interest, a share below that in total enterprises (17 per cent) (Chart 11).

Financial pressure decreased across size classes and economic activity segments, except for large enterprises, where it increased slightly. The weight of



interest expenses in EBITDA was higher in large enterprises and microenterprises (9 per cent in both cases, above 7 per cent in SMEs). By economic activity segment, the 'pharmaceutical industry' and the 'retail sale of pharmaceutical goods' (9 per cent in both cases) saw the highest levels of financial pressure (7 per cent in 'wholesale of pharmaceutical goods').

According to Banco de Portugal's Central Credit Register data, loans granted by the resident financial sector to the pharmaceutical sector declined by 2.5 per cent in 2016. This proceeded well into 2017: between the end of 2016 and the end of 2017, loans granted to the pharmaceutical sector fell by 2.9 per cent.

For every €100 of loans granted to the pharmaceutical sector, approximately €10 were non-performing at the end of 2017 (€13.5 in total enterprises), i.e. €1.6 less than at the end of 2016 (Chart 12). This decrease was broadly based across economic activity segments, but more marked in 'wholesale of pharmaceutical goods' (from €10.2 in non-performing loans for every €100 in December 2016 to €8.2 in every €100 in December 2017). The non-performing loans ratio in 'retail sale of pharmaceutical goods' also declined (1.8 p.p., to

13.7 per cent in December 2017), but was nonetheless higher than in the other segments. Over the entire period under review, the 'pharmaceutical industry' had residual levels of non-performing loans (0.6 per cent at the end of 2017).

In 2016 trade credits accounted for 34 per cent of liabilities in the pharmaceutical sector (16 per cent in total enterprises). This type of financing was more relevant in 'wholesale of pharmaceutical goods' (44 per cent of liabilities) than in 'retail sale of pharmaceutical goods' (23 per cent) and the 'pharmaceutical industry' (22 per cent). However, only enterprises in the 'retail sale of pharmaceutical goods' segment posted a positive balance between accounts payable and accounts receivable (corresponding to 7 per cent of their turnover in 2016). The other segments did not receive net trade credit financing (negative balance of 11 and 5 per cent of turnover in 'wholesale of pharmaceutical goods' and the 'pharmaceutical industry' respectively). The pharmaceutical sector as a whole had a negative balance corresponding to 6 per cent of its turnover (similarly to previous years).

Chart 11 • Weight of interest expenses in EBITDA

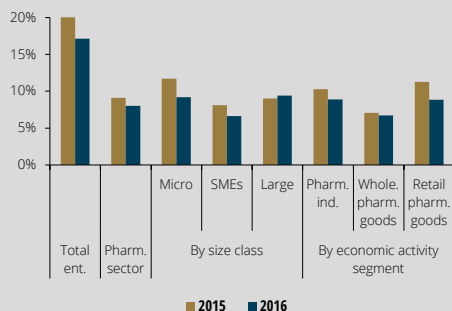
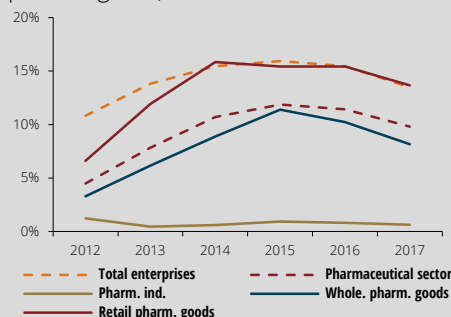


Chart 12 • Non-performing loans ratios (end-of-period figures)



¹ In the 'Empresas' (Corporate) section of Banco de Portugal's website (only in the Portuguese version), enterprises may, instantly and without charge, obtain the respective Enterprise and Sector Table. With this information, the enterprise can compare its economic and financial situation with other enterprises in the same sector of activity and size class, taking into account a wide range of indicators.

² The pharmaceutical sector comprises enterprises operating in the pharmaceutical industry, as well as the wholesale and retail sale of pharmaceutical goods, according to the classification of enterprises on the basis of the Portuguese Classification of Economic Activities (CAE-Rev. 3), under Division 21 and Sub-classes 46460 and 47730 respectively.

³ The definition of export sector is presented in more detail in *Central Balance Sheet Study | 22 – Analysis of enterprises in the export sector in Portugal* June 2015.

Additional information available at:

[Domain: Central Balance Sheet Database statistics in BPstat | Statistics online](#)

[Supplement No 2/2013 to the Statistical Bulletin on statistics on non-financial corporations of the Central Balance Sheet Database](#)

[Central Balance Sheet Study No 30 on non-financial corporations \(Portuguese version only\)](#)

[Central Balance Sheet Study No 25 on enterprises in the pharmaceutical sector](#)

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Annex – Main indicators in the pharmaceutical sector

Chart	Series	2012	2013	2014	2015	2016	2017	
1 Demographic indicators	Pharmaceutical sector							
	Birth rate	7.3	7.7	6.4	6.5	5.4		
	Death rate	3.4	4.0	4.1	3.4	4.6		
	Rate of change in the number of enterprises	4.3	4.0	2.4	3.4	0.8		
	Rate of change in the number of enterprises / Total enterprises	0.1	0.8	1.1	2.0	0.6		
2 Structure By economic activity segment	Pharmaceutical industry							
	Number of enterprises	4.4	4.0	4.1	3.9	4.0		
	Turnover	12.2	11.5	10.9	11.0	10.7		
	Number of employees	19.2	19.0	18.4	18.2	18.5		
	Wholesale of pharmaceutical goods							
	Number of enterprises	26.1	26.2	26.2	26.6	26.2		
	Turnover	64.9	65.0	64.4	64.4	64.2		
	Number of employees	35.6	34.1	33.1	33.1	32.4		
	Retail sale of pharmaceutical goods							
	Number of enterprises	69.5	69.8	69.8	69.5	69.8		
	Turnover	22.9	23.5	24.7	24.6	25.1		
	Number of employees	45.2	46.9	48.5	48.8	49.2		
	3 Structure By size class	Share of microenterprises in the number of enterprises in the aggregate						
Total enterprises		88.9	89.4	89.4	89.2	89.0		
Pharmaceutical sector		80.1	81.3	80.9	80.2	78.7		
Share of microenterprises in the aggregate's turnover								
Total enterprises		15.5	15.6	15.7	15.9	15.9		
Pharmaceutical sector		17.7	18.5	18.3	17.5	16.8		
Share of microenterprises in the number of employees in the aggregate								
Total enterprises		28.2	28.1	27.9	27.3	27.0		
Pharmaceutical sector		34.6	35.9	34.0	33.3	31.9		
Share of SMEs in the number of enterprises in the aggregate								
Total enterprises		10.9	10.4	10.3	10.6	10.8		
Pharmaceutical sector		19.1	18.0	18.3	19.2	20.5		
Share of SMEs in the aggregate's turnover								
Total enterprises		42.2	42.1	42.2	42.8	43.6		
Pharmaceutical sector		40.8	42.7	42.1	45.6	45.7		
Share of SMEs in the number of employees in the aggregate								
Total enterprises		46.1	45.6	45.4	45.4	46.1		
Pharmaceutical sector		45.4	45.3	44.5	46.3	46.5		
Share of large enterprises in the number of enterprises in the aggregate								
Total enterprises		0.2	0.2	0.2	0.2	0.3		
Pharmaceutical sector		0.8	0.7	0.8	0.7	0.8		
Share of large enterprises in the aggregate's turnover								
Total enterprises		42.4	42.3	42.1	41.3	40.4		
Pharmaceutical sector		41.5	38.8	39.5	36.9	37.5		
Share of large enterprises in the number of employees in the aggregate								
Total enterprises		25.7	26.3	26.7	27.3	27.0		
Pharmaceutical sector		20.0	18.8	21.4	20.4	21.6		
4 Turnover Contributions from the external and internal markets (p.p.) to the annual growth rate (%)		Growth rate of turnover / Pharmaceutical sector	-5.6	-1.1	3.3	6.5	2.4	
		Contribution from the external market	0.9	0.1	0.1	1.3	-0.1	
		Contribution from the internal market	-6.5	-1.2	3.2	5.2	2.4	
	Growth rate of turnover / Total enterprises	-6.2	-0.2	2.0	2.3	2.1		
	5 Share of enterprises with EBITDA growth	Total enterprises	44.6	53.7	54.2	54.6	53.7	
Pharmaceutical sector		32.2	62.3	64.3	60.8	54.6		
Microenterprises		31.1	61.9	64.4	61.0	54.6		
Small and medium-sized enterprises		35.2	64.0	64.4	60.2	54.8		
Large enterprises		53.6	57.7	53.6	65.4	51.7		
Pharmaceutical industry		48.8	59.0	49.6	58.5	49.6		
Wholesale of pharmaceutical goods		44.5	58.8	55.6	54.0	53.1		
Retail sale of pharmaceutical goods		26.9	63.7	68.2	63.4	55.4		
6 Return on equity	Total enterprises	-0.2	2.6	2.5	6.9	7.7		
	Pharmaceutical sector	4.9	7.5	8.6	12.3	9.4		
	Pharmaceutical industry	13.4	13.4	12.0	14.4	10.3		
	Wholesale of pharmaceutical goods	4.0	7.2	8.3	11.5	8.1		
	Retail sale of pharmaceutical goods	0.2	3.3	6.6	11.9	10.9		

Chart	Series	2012	2013	2014	2015	2016	2017
7 Profitability by segment Operating margin and net margin	EBITDA / Revenue						
	Total enterprises	7.5	8.4	8.2	10.0	10.4	
	Pharmaceutical sector	5.1	5.9	6.3	7.4	6.8	
	Pharmaceutical industry	14.3	16.3	16.5	17.5	16.8	
	Wholesale of pharmaceutical goods	3.5	4.1	4.3	5.2	4.2	
	Retail sale of pharmaceutical goods	4.4	5.6	6.8	8.7	9.0	
	Net income / Revenue						
	Total enterprises	-0.1	1.2	1.1	3.1	3.5	
	Pharmaceutical sector	1.5	2.3	2.7	4.1	3.2	
	Pharmaceutical industry	6.8	7.9	7.6	9.0	7.0	
	Wholesale of pharmaceutical goods	0.9	1.6	1.9	3.0	2.0	
Retail sale of pharmaceutical goods	0.1	1.3	2.6	4.7	4.4		
8 Capital ratio Weighted average and distribution median	Capital ratio (weighted average)						
	Total enterprises	29.0	29.6	29.2	31.4	32.3	
	Pharmaceutical sector	34.4	36.3	37.8	41.2	41.4	
	Microenterprises	36.1	35.6	35.6	37.5	38.2	
	Small and medium-sized enterprises	35.1	35.3	38.7	41.0	43.6	
	Large enterprises	32.4	38.0	38.3	44.3	40.5	
	Pharmaceutical industry	38.3	41.0	41.6	45.7	45.8	
	Wholesale of pharmaceutical goods	31.6	33.6	35.5	39.9	39.1	
	Retail sale of pharmaceutical goods	36.7	37.8	38.9	40.4	42.3	
	Capital ratio (median)						
	Total enterprises	23.3	23.6	24.9	26.5	27.8	
	Pharmaceutical sector	36.0	36.3	39.3	42.4	43.8	
	Microenterprises	35.0	34.5	37.5	40.5	42.7	
	Small and medium-sized enterprises	37.5	40.6	45.3	46.8	47.3	
	Large enterprises	35.0	44.9	38.0	47.9	42.3	
	Pharmaceutical industry	36.6	36.4	37.9	37.1	35.5	
	Wholesale of pharmaceutical goods	26.0	24.2	28.1	29.3	30.9	
	Retail sale of pharmaceutical goods	40.1	41.4	45.0	48.0	49.8	
	9 Liabilities Contributions from components (p.p.) to the annual growth rate (%)	Growth rate of liabilities / Total enterprises	-1.7	-1.8	-0.9	-3.2	0.1
Growth rate of liabilities / Pharmaceutical sector		-5.2	-6.9	-1.6	-2.2	2.3	
Contribution from debt securities		-0.3	-0.4	0.3	1.6	-0.5	
Contribution from bank loans		-1.3	-0.5	-3.1	-2.5	0.1	
Contribution from intra-group financing		-1.6	-4.0	0.8	-2.5	1.4	
Contribution from other financial debt		0.4	-1.3	-0.4	0.3	0.4	
Contribution from trade credits		-1.8	-1.9	-0.5	0.2	-0.1	
Contribution from other liabilities		-0.7	1.3	1.3	0.7	1.0	
10 Interest expenses Weighted average and median of the annual growth rate	Growth rate of interest expenses (weighted average)						
	Total enterprises	4.7	-6.4	-5.9	-11.4	-9.1	
	Pharmaceutical sector	-4.6	-19.2	-12.1	-11.6	-18.0	
	Microenterprises	13.2	-14.8	-12.8	-14.6	-21.5	
	Small and medium-sized enterprises	0.6	-20.4	-7.0	-19.3	-17.8	
	Large enterprises	-19.4	-20.9	-18.3	2.5	-15.7	
	Pharmaceutical industry	-13.3	-6.2	-15.1	7.7	-17.7	
	Wholesale of pharmaceutical goods	-1.8	-27.8	-15.6	-21.8	-20.6	
	Retail sale of pharmaceutical goods	-1.8	-15.9	-5.6	-13.8	-15.7	
	Growth rate of interest expenses (median)						
	Total enterprises	-22.4	-31.6	-20.3	-23.0	-22.8	
	Pharmaceutical sector	-9.7	-22.0	-13.0	-21.8	-22.8	
	Microenterprises	-12.0	-22.6	-15.4	-22.0	-23.8	
	Small and medium-sized enterprises	-1.3	-20.2	-6.8	-19.9	-19.9	
Large enterprises	-2.2	-30.8	-30.9	-36.8	-25.9		
Pharmaceutical industry	10.4	-14.9	-11.3	-30.5	-25.9		
Wholesale of pharmaceutical goods	-7.1	-27.7	-17.9	-26.3	-24.1		
Retail sale of pharmaceutical goods	-10.6	-21.4	-12.7	-20.1	-22.4		
11 Weight of interest expenses in EBITDA	Total enterprises	35.7	30.1	28.3	20.1	17.1	
	Pharmaceutical sector	23.1	16.4	13.0	9.1	8.0	
	Microenterprises	41.0	24.6	18.3	11.7	9.2	
	Small and medium-sized enterprises	20.0	15.1	12.8	8.1	6.6	
	Large enterprises	20.7	14.1	10.7	9.0	9.4	
	Pharmaceutical industry	14.1	12.7	11.0	10.3	8.9	
	Wholesale of pharmaceutical goods	23.8	14.8	11.5	7.1	6.7	
	Retail sale of pharmaceutical goods	38.4	25.1	17.8	11.3	8.8	
12 Non-performing loans ratios (end-of-period figures)	Total enterprises	10.8	13.8	15.4	15.9	15.5	13.5
	Pharmaceutical sector	4.5	7.8	10.7	11.9	11.4	9.8
	Pharmaceutical industry	1.2	0.5	0.6	0.9	0.8	0.6
	Wholesale of pharmaceutical goods	3.3	6.2	8.9	11.4	10.2	8.2
	Retail sale of pharmaceutical goods	6.6	11.9	15.9	15.4	15.4	13.7

NOTES: The aggregates 'Microenterprises', 'Small and medium-sized enterprises', 'Large enterprises', 'Pharmaceutical industry', 'Wholesale of pharmaceutical goods' and 'Retail sale of pharmaceutical goods' refer to components of the pharmaceutical sector. Similarly, contributions shown always refer to contributions to the total of the sector under review. All figures are shown as a percentage, except where the indicator refers to contributions (p.p.). Shaded cells are not represented in the charts.