



Central Balance Sheet Study | 25 – Analysis of enterprises in the pharmaceutical sector

13 July 2016

Banco de Portugal has published *Central Balance Sheet Study | 25*, which analyses the economic and financial situation of enterprises in the pharmaceutical sector between 2010 and 2015.

The results are chiefly based on data from Banco de Portugal's Central Balance Sheet Database, and 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'), supplemented by details on bank loans obtained by these enterprises from the Portuguese financial system. It also includes a comparative analysis with total enterprises.

Structure and dynamics

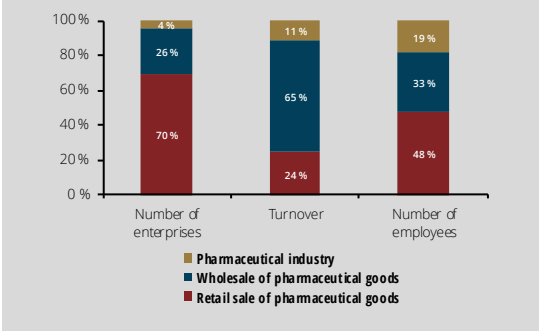
3,500 enterprises, particularly microenterprises. 70 per cent were part of the retail sale of pharmaceutical goods segment

In 2014 the pharmaceutical sector comprised around 3,500 enterprises, accounting for 1 per cent of the total number of enterprises in Portugal, 3 per cent of turnover and 1 per cent of the number of employees.

The sector was mostly comprised of microenterprises (81 per cent). SMEs were the most representative in terms of both turnover and the number of employees (42 and 45 per cent respectively).

By economic activity segment, the retail sale of pharmaceutical goods concentrated the largest shares of enterprises and employees (70 and 48 per cent respectively). However, 65 per cent of turnover was generated by the wholesale of pharmaceutical goods (Chart 1).

Chart 1 • Structures | By economic activity segment (2014)



On average, enterprises in the pharmaceutical sector generated 3.6 times more turnover and its number of employees was 1.4 times higher than in the average enterprise in Portugal.

Activity and profitability

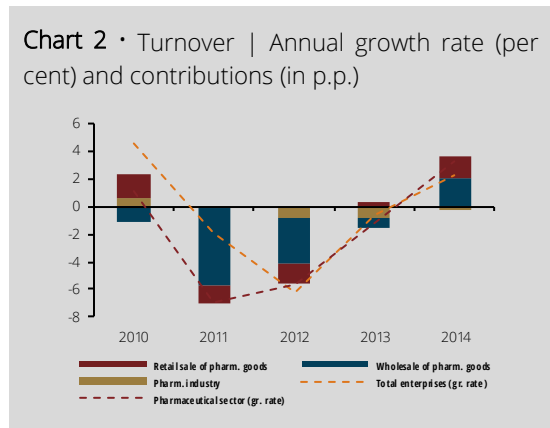
Turnover increased by 3 per cent in 2014, thus reversing the fall in activity seen since 2011

Following three consecutive years of falls in activity (albeit with increasingly less negative rates), turnover in the pharmaceutical sector grew by 3 per cent in 2014, i.e. 5 percentage points (p.p.) more than in 2013. Turnover developments in the sector compared favourably with total enterprises, whose turnover increased by 2 per cent from 2013 (Chart 2).

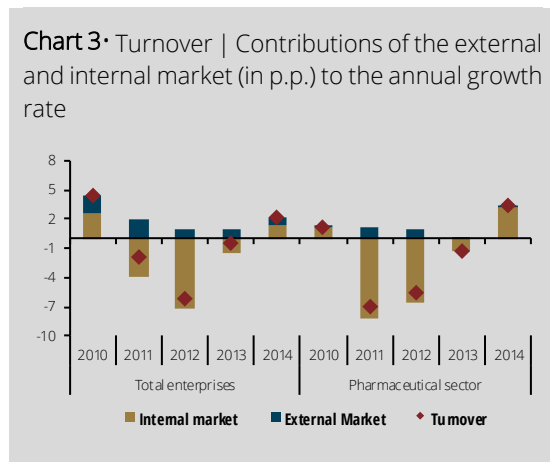
Growth was boosted by the wholesale of pharmaceutical goods and the retail sale of pharmaceutical goods

By size class, contributions to growth in turnover of large enterprises (2 p.p., associated with a 6 per cent increase in turnover) and SMEs (1.3 p.p., due to 3 per cent growth) were considerable. By economic activity segment, the wholesale of pharmaceutical goods and the retail sale of pharmaceutical goods were key to the pick-up in pharmaceutical activity. In turn, the pharmaceutical

industry made a negative contribution of 0.3 p.p. to the sector's aggregate developments.



The 3 per cent growth in turnover of the pharmaceutical sector was chiefly due to the contribution from the internal market (3 p.p.). The external market made a marginal contribution (0.1 p.p.). (Chart 3).



Operating expenses in the pharmaceutical sector, similarly to turnover, increased by 3 per cent in 2014 (2 per cent growth in total enterprises). The cost of goods sold and materials consumed made the largest contribution to aggregate developments, to the extent that it accounted for 76 per cent of operating expenses in the pharmaceutical sector (59 per cent in total enterprises).

EBITDA in the pharmaceutical sector increased by 8 per cent in 2014, i.e. less than in 2013 (15 per cent). Approximately 64 per cent of enterprises in the sector posted positive changes in EBITDA, i.e. 10 p.p. above that for total enterprises. EBITDA was negative for 21 per cent of the sector's enterprises (14 p.p. less than in total enterprises) (Table 1).

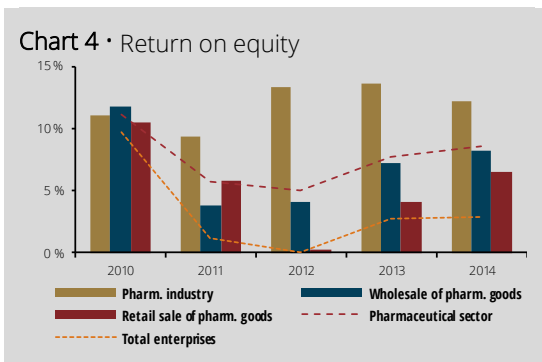
Table 1 • EBITDA | Share of enterprises with a positive growth rate in EBITDA and with negative EBITDA

		Enterprises with a positive growth rate in EBITDA		Enterprises with negative EBITDA	
		2013	2014	2013	2014
Total enterprises		53.6 %	53.9 %	36.2 %	35.3 %
Pharmaceutical sector		62.4 %	64.3 %	24.4 %	21.4 %
By size class	Microenterprises	62.0 %	64.9 %	27.6 %	24.6 %
	SMEs	64.1 %	62.6 %	10.6 %	8.3 %
	Large enterprises	57.7 %	50.0 %	7.7 %	6.9 %
By economic activity segment	Pharmaceutical industry	59.1 %	49.6 %	29.9 %	30.7 %
	Wholesale of pharmaceutical goods	58.7 %	55.3 %	32.9 %	30.9 %
	Retail sale of pharmaceutical goods	63.9 %	68.3 %	20.9 %	17.3 %

Return on equity was higher than in total enterprises (9 per cent in 2014)

In 2014, and following the growth trend seen over the past two years, return on equity in the pharmaceutical sector, which was always higher than in total enterprises in the 2010-14 period, totalled 9 per cent (1 p.p. increase from 2013) (Chart 4). The pharmaceutical industry had the highest profitability (12 per cent, in 2014), as has been the case since 2011.

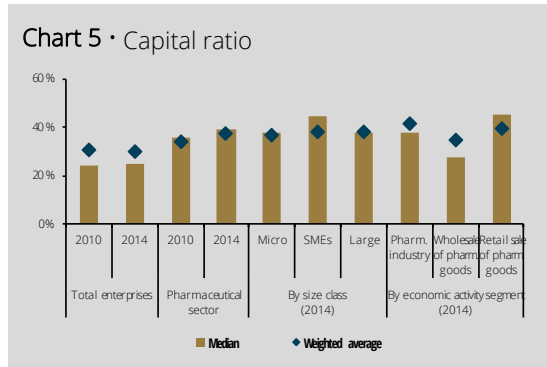
In 2014 the operating margin of the pharmaceutical sector amounted to 6 per cent and the net margin reached 3 per cent (8 and 1 per cent, respectively, in total enterprises).



Financial situation

Share of enterprises with negative equity was lower than in total enterprises (16 per cent in the sector)

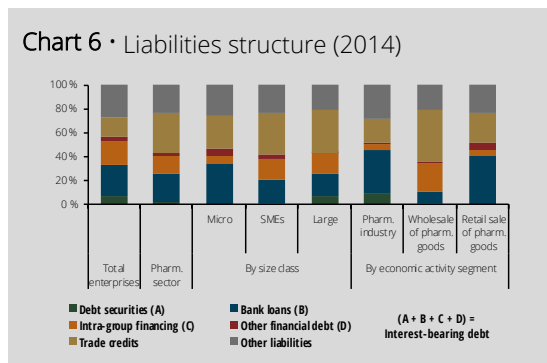
The pharmaceutical sector's capital ratio was, on average, 38 per cent (30 per cent in total enterprises) (Chart 5).



In 2014, 16 per cent of enterprises in the pharmaceutical sector were particularly vulnerable, as they posted negative equity. Nevertheless, this value compared favourably with that seen in total enterprises (30 per cent in 2014), as had been the entire 2010-14 period.

Bank loans and intra-group financing were the most significant components of interest-bearing debt

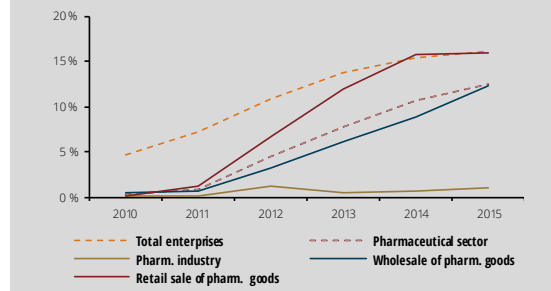
Interest-bearing debt corresponded to 43 per cent of liabilities in the pharmaceutical sector, below that seen in total enterprises (57 per cent) (Chart 6). Bank loans and intra-group financing (23 and 14 per cent of liabilities, respectively) were the most relevant components of the sector's interest-bearing debt.



Banks loans accounted for 40 per cent of liabilities in the retail sale of pharmaceutical goods and 37 per cent in the pharmaceutical industry. In the wholesale of pharmaceutical goods, the weight of bank loans was lower (10 per cent of liabilities), while intra-group financing was more significant (23 per cent).

Data available for 2015 compiled by the Central Credit Register of Banco de Portugal shows that credit granted to the sector by the resident financial system has decreased since 2011. The non-performing loans ratio stood at 12.5 per cent, below that for total enterprises (16.2 per cent) (Chart 7).

Chart 7 • Non-performing loans ratio (end-of-period figures)

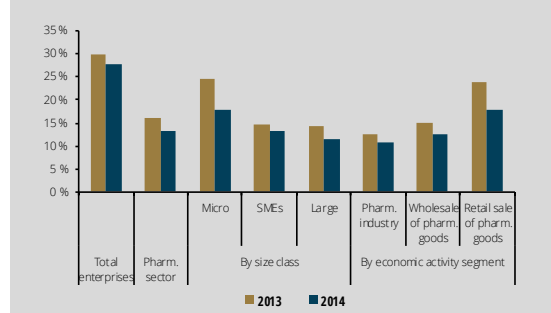


Decline in interest expenses was accompanied by a reduction in financial pressure

Interest expenses in the pharmaceutical sector decreased, on average, by 10 per cent from the previous year, above the 7 per cent decline in total enterprises. The decrease in interest expenses was broadly based across size classes and activity segments.

In 2014 the financial pressure ratio of the pharmaceutical sector, assessed by the weight of interest expenses in the sector's aggregate EBITDA, declined by 3 p.p. from the previous year, to 13 per cent. Similarly to the entire 2010-14 period, this ratio was higher in total enterprises (28 per cent in 2014) (Chart 8). The reduction in financial pressure in the pharmaceutical sector was seen across all size classes and economic activity segments.

Chart 8 • Weight of interest expenses in EBITDA (2013 and 2014)



Despite the lower financial pressure exerted on the pharmaceutical sector, individual data shows that, in 2014, 20 per cent of enterprises did not generate

enough EBITDA to pay interest expenses on their interest-bearing debt, which is still below that seen in total enterprises (34 per cent). Conversely, financial pressure was below 0.5 for 73 per cent of pharmaceutical enterprises (61 per cent in total enterprises).

Retail sale of pharmaceutical goods was the only segment in the sector to obtain net funds through trade credit financing

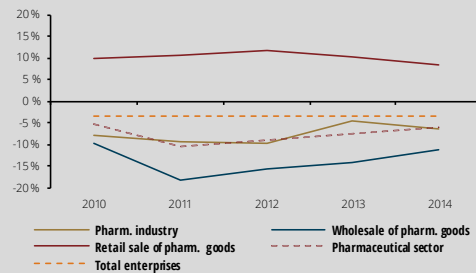
In 2014 trade credit financing accounted for 34 per cent of liabilities in the pharmaceutical sector, i.e. above that seen in total enterprises (16 per cent).

On average, enterprises in this sector took nine days longer to receive payments from their customers than to pay their debt to suppliers, in contrast to total enterprises, where average days sales outstanding were lower than days payable outstanding.

Net trade credit financing was more negative in the pharmaceutical sector (6 per cent, compared with

3 per cent in total enterprises), although the retail sale of pharmaceutical goods posted positive net trade credit financing (8 per cent of turnover) (Chart 9).

Chart 9 • Net trade credit financing | As a percentage of turnover, by economic activity segment



Note: Net trade credit financing was calculated using the difference between accounts payable (net of advances) and accounts receivable (net of advances and adjustments).

For more information, see:

[Statistical domain of Central Balance Sheet Database statistics in BPstat | Statistics online](#)

[Supplement to the Statistical Bulletin 2/2013 on statistics on non-financial corporations of the Central Balance Sheet Database](#)

[Central Balance Sheet Study No 23 on non-financial corporations](#)

Central Balance Sheet Study No 25 on enterprises in the pharmaceutical sector

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