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Strategies and Development Policies of Territories: International, Country, Region, City, Location Challenges

The Strategy of International Monetary Fund in the Recovery of the Post-Crisis Economy in Latin America

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Romanian Pharmaceutical Sector -Between Challenges, Opportunities and Market Threats. Legal Aspects of the Trading of Listed Companies

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Abstract

Companies operating in the health and medical sciences will face this year not only with the challenges of an increasingly globalized market, but also with specific problems, both regional and national.

While other large sectors, such as the food industry, are poorly represented on the Romanian stock market, the pharmaceutical sector is represented by the following six companies: Antibiotics, Biofarm, Farmaceutica Remedia, MedLife, Zentiva and Ropharma. During 2014-2016, these companies recorded oscillatory developments in sales and the net result of the year, as a result of the price reduction for drugs, the need for law to separate wholesale distribution from wholesale, a significant reduction in discounts to distributors, with an important negative impact on their margin.

Globally, the pharmaceutical market is estimated to over $ 1 trillion, according the outcomes in 2016, while the top 15 companies accounting represent about 40% of the total.

Keywords:
Capital market; shares; open-end joint-stock companies.

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1. Introductory considerations on the results and rankings of global drug companies

Drug companies around the world are not known for their good reputation. However, public opinion has changed surprisingly over the last few years, especially in the midst of large price controversy and a steady rise.

The broadest research conducted by the *Reputation Research and Consulting firm* evaluates how 14 pharmaceutical companies are publicly seen in seven key areas: products and services, innovation, working conditions, management, shareholder responsibility, leadership and financial performance.

The results show that, on average, the reputation of companies continues to be questionable. However, overall, the public opinion on the pharmaceutical industry has improved since 2015. Another interesting fact that emerged from the analysis is that people tend to have polarized opinions about companies taken individually. Thus, they place them either in the category of bad reputation or in the category of excellent reputation. But in general, people aged between 18 and 24 are more critical of pharmaceutical companies than older people.

The table below lists the top 14 drug companies around the world, following public perception in the seven key areas, at the level of 2016[12].

Table 1. An example of a table

Ranking	Company	Score	Characteristics
1	Bayer (Germany)	70,6	The Bayer company offers both branded medications and some commonly used as aspirin. It also offers agricultural products. It ranks first in leadership, performance, products and services and workplace atmosphere.
2	Abbott Laboratoires (USA)	68,7	The company offers a wide range of products, from nutrition to diabetic monitoring systems.
3	NovoNordisk (Denmark)	68,5	The Danish company climbed from the 7th place, which was last year. They dominated the ranking in the categories of accountability to shareholders, administration, innovation.
4	Roche (Switzerland)	68,4	The Swiss company is one of the best known in the top. Lately, they have invested in research to develop cancer treatments and invests heavily in companies that come with new technologies.

Ranking	Company	Score	Characteristics
5	Merck (USA)	68,3	A company which made a spectacular hit in the ranking, in 2015 it was on the 11th place. Merck, headquartered in New Jersey, is known for Gardasil, a vaccine that protects against HPV and a drug used to treat Jimmy Carter's cancer. It had high scores in all categories.
6	Sanofi (France)	67,8	Climbed the rankings, in 2015 it was on the 10th place. They have earned much on the average workload.
7	Allergan (United Kingdom)	67,5	Another new company in the top. Nexus has spent many months discussing a possible merger with Pfizer. Respondents did not find it sufficiently innovative.
8	AstraZeneca (United Kingdom)	67,1	The British-Swedish company, known for drugs as Nexium, had average scores in all categories.
9	Eli Lilly (USA)	67,1	The reputation of the Indianapolis-based company remained roughly the same as in 2015.
10	AbbVie (USA)	67	The company with the headquarters in Chicago, actually broking out in 2013 from AbottLaboratoires, is the first time in the top. They received scores on performance, products and services and leadership.
11	GlaxoSmithKline (United Kingdom)	66,9	The British company improved its perception in 2016. Respondents say it has done better in terms of overall performance and innovation.
12	Novartis (Switzerland)	66,7	The company with the head office in Switzerland is slightly better than last year. It has earned small scores on the accountability and management responsibilities.
13	Bristol-MyersSquibb (USA)	66	The company based in New York is known for its diabetes and heart problems. Her reputation has not changed much since 2015.
14	Pfizer (USA)	65,9	The company known for medicines like Lipitor or Viagra is the second most familiar for respondents, of all 14 analyzed. The company ranks last in the chapters: working environment, shareholder responsibility and administration.

According to *IgeaHub* [15], the global pharmaceutical market is estimated at 1.1 trillion dollars after the results obtained in 2016,while the top 15 companies in the ranking represent about 40% of the total. The classification model included seven criteria for each organization, with an emphasis on revenue generated by pharmaceuticals and revenue growth (2015-2016). The criteria include *pharmaceutical incomes, annual revenue growth, total R & D expenditure, total expenditure, total income, proportion of first three pharmaceutical products revenue and employee earnings*.

Rank	Company	Total Revenue, 2016 (USD Million)	Revenue from Pharmaceutical Segment 2016(USD Million)	Annual Pharmaceutical Revenue Growth, 2015 to 2016 (%)	Proportion of Revenue from Pharmaceuticals Segment (%)	Total R&D Expenses, 2016 (USD Million)	Total Expense Ratio, 2016 (%)	Total Income Ratio, 2016 (%)	Total Revenue from Top-3 Pharmaceutical Products, 2016 (USD Million)	Proportion of Revenue from Top-3 Pharmaceutical Products (%)	Revenue per Employee, 2016 (USD Thousand)
1	Pfizer Inc. (U.S.)	52,824	52,824	8	100	7,872	84	14	13,593	26	547
2	Merck & Co., Inc. (U.S.)	39,807	35,151	1	88	10,124	88	10	8,669	25	585
3	Johnson & Johnson (U.S.)	71,890	33,464	7	47	9,095	72	23	12,486	37	569
4	F. Hoffmann-La Roche AG (Switzerland)	51,082	39,494	3	77	10,014	72	19	21,074	53	543
5	Sanofi (France)	35,850	35,850	-1	100	5,482	85	14	9,428	26	335
6	Novartis AG (Switzerland)	48,518	32,562	-3	67	9,039	89	14	8,267	25	394
7	AbbVie Inc. (U.S.)	25,638	25,638	14	100	4,366	63	23	19,432	76	855
8	AstraZeneca plc (U.K.)	23,002	23,002	5	100	5,890	84	15	8,422	37	400
9	Gilead Sciences, Inc. (U.S.)	30,390	29,953	-7	99	3,398	42	44	16,648	56	3,377
10	Amgen Inc. (U.S.)	22,991	22,991	6	100	3,840	57	34	12,706	55	1,197
11	Bristol-Myers Squibb Company (U.S.)	19,427	19,427	17	100	535	4	23	9,382	48	777
12	Teva Pharmaceutical Industries Ltd. (Israel)	21,903	21,903	11	100	2,111	144	1	5,449	25	385
13	Bayer AG (Germany)	49,107	17,241	7	35	4,899	85	13	6,005	35	426
14	Eli Lily and Company (U.S.)	21,222	18,064	6	85	5,244	84	13	7,524	42	506
15	GlaxoSmithKline plc (U.K.)	34,582	19,969	3	58	4,499	92	4	7,655	38	358

Source: https://igeahub.com/2017/03/14/top-10-pharmaceutical-companies-2017/, accessed on 12.12.2017

2. Romanian pharmaceutical companies listed on the Bucharest Stock Exchange - in figures

Descriptive information on the activity of Zentiva, Biofarm, FarmaceuticaRemedia, Ropharma and Antibiotice listed on the Bucharest Stock Exchange is presented in the following paragraphs. The information used in the analysis was collected both from the reports published on the stock exchange website and on the companies' web pages. The information

has been processed using the Excel application to help with the calculation of the indicators, evolution indicators and graphs to highlight their dynamics in 2014-2016. The values thus calculated were interpreted in order to perform an economic-financial diagnosis aimed at assessing the performances, risks and financial position of the entities under analysis.

Company ZENTIVA [6], part of the Sanofi Group since March 2009, is focused on the development, production and marketing of modern, high-quality and affordable generic pharmaceutical products.

With a tradition of more than 50 years on the domestic market, Zentiva is one of the largest drug manufacturers in Romania in terms of volumes, carrying out its industrial operations at the plant located in Bucharest, an industrial unit with state-of-the-art equipment, some of them unique on the Romanian market such as pellet technology.

The company has a comprehensive portfolio of products covering a wide range of therapeutic areas, focusing on cardiovascular, inflammatory, pain, infections and central nervous system disorders as well as on gastrointestinal and urological conditions. Zentiva provides Romanians with access to both traditional and successful brands that have won and preserved the trust of Romanians in time, as well as internationally renowned brands in the market. The company is also involved at local level in conducting education, information and prevention projects.

In order to form an image of the company's results, a series of economic and financial information from the financial reports was taken and the indicators presented in the table below were calculated:

Table 2. Indicators of S.C. ZENTIVA S.A.

Indicators	Financial year			Indicators of evolution (%)	
	2014	2015	2016	2015/2014	2016/2015
Fiscal value	394.072.608	396.824.592	420.004.320	100,70	105,84
Net result	54.242.888	46.204.961	73.026.648	85,18	158,05
Rate of return	13,76	11,64	17,39	84,59	149,33
Average number of employees	488	497	493	101,84	99,20
Average annual labor productivity	807.525,84	798.439,82	851.935,74	98,87	106,70

Source: Own data processing according to the financial information of S.C. ZENTIVA S.A.

Company **Zentiva**, with a market value of more than 1 billion lei, registered a turnover of 5.84% in 2016 compared to the same period of the

previous year. Also during this period the net profit registered in 2016 is over 73 million lei, 58.05% more than the result obtained in 2015, being positively influenced by the increase of sales both on the local market and on export. Against the background of net profit growth (+ 58.05%) at a faster pace than sales growth (+ 5.84%), there was an increase in the rate of return by 5.74 percentage points. The increase in turnover by 5.84%, coupled with the decrease of the average number of employees by 4 (- 0.80%), was generated by the increase of the average annual labor productivity by 6.70%.

The evolution of the price of Zentiva shares traded on the BSE with the SCD symbol during June-December 2017 is represented in the chart below:

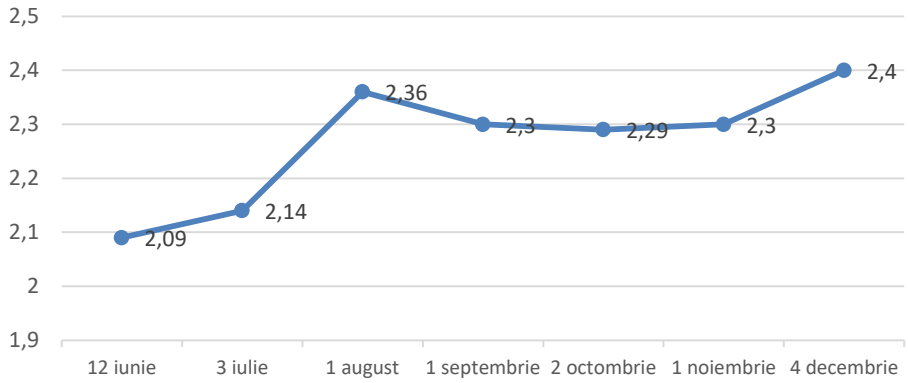


Chart no. 1. The evolution of the closing price - S.C. ZENTIVA S.A.

Company BIOFARM [7] was established in 1990 by the transformation of the BIOFARM Medicines Company into S.C. BIOFARM S.A., based on the Law no. 15/1990, of the Law no. 31/1990 and the Government Decision no. 1224 / 23.11.1990.

Biofarm has a competitive portfolio of over 200 products covering more than 60 therapeutic areas and is continuously investing in media, commercial, and marketing campaigns to promote its own products.

Having a stable position on the Romanian pharmaceutical market, Biofarm aims to improve its position in the international arena.

In order to form an image of the company's results, some economic and financial information was taken from the financial reports on the basis of which the indicators presented in the table below were calculated:

Table 3. Indicators of S.C. BIOFARM S.A.

Indicators	Financial year			Indicators of evolution (%)	
	2014	2015	2016	2015/2014	2016/2015
Fiscal value	128.508.056	149.691.393	152.304.096	116,48	101,75
Net result	26.559.852	27.226.492	29.477.748	102,51	108,27
Rate of return	20,67	18,19	19,35	88,00	106,41
Average number of employees	380	394	388	103,68	98,48
Average annual labor productivity	338.179,09	379.927,39	392.536,33	112,35	103,32

Source: Own data processing according to the financial information of S.C. BIOFARM S.A.

Company Biofarm, with a market value of over 290 million lei, registered a turnover of 1.75% in 2016 compared to the same period of the previous year. Also during this period the net profit registered in 2016 is over 29 million lei, increasing by 8.27% compared to the result obtained in 2015, being positively influenced by the increase in sales. Against the background of net profit growth (+ 8.27%) at a faster pace than sales growth (+ 1.75%), there was an increase in the rate of profitability by 1.16 percentage points. The increase in turnover by 1.75%, coupled with the decrease of the average number of employees by 6 (-1.52%), was generated by the increase of the average annual labor productivity by 3.32%.

The evolution of Biofarm shares traded on BSE with the BIO symbol during June-December 2017 is shown in the chart below:

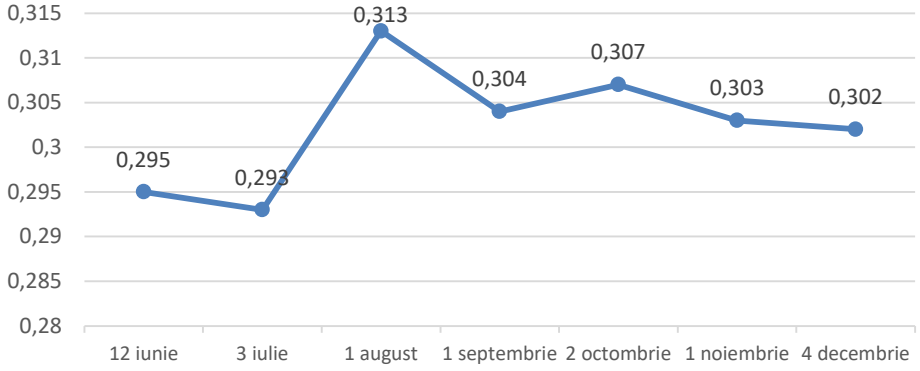


Chart no. 2. The evolution of the closing price - S.C. BIOFARM S.A.

Company FARMACEUTICA REMEDIA [8] is part of a group of companies specializing in sales, marketing and health promotion services.

Farmaceutica REMEDIA S.A. operates 100 retail units, including REMEDIA Baby - dedicated to children, accounting for approximately 30% of the company's business, focusing on diversifying the portfolio of pharmaceuticals, food supplements, dermato-cosmetics. The REMEDIA chain of pharmacies is present in 16 counties, especially Hunedoara and Alba, plus Bucharest, where the company has strengthened its position by 20 units currently owned. Additionally, as early as 2012, the company addresses its customers through the e-shop platform, and a specialist company within the group provides home care recommendations as additional services for the benefit of patients.

Following the recent legislative imposition on the separation of wholesale and retail pharmaceuticals, the Extraordinary General Meeting of Shareholders of December 9, 2014 decided to maintain the retail activities and the transfer in 2015 of wholesale distribution activities and related services to Farmaceutica REMEDIA Distribution & Logistics SRL.

In ordertobuild an image of thecompany'sresults, some economic andfinancialinformationwastakenfromthefinancialreports on thebasis of whichtheindicatorspresented in the table belowwerecalculated:

Table 4. Indicators of S.C. Farmaceutica REMEDIAS.A.

Indicators	Financial year			Indicators of evolution (%)	
	2014	2015	2016	2015/2014	2016/2015
Fiscal value	246.842.704	243.811.465	87.998.776	98,77	36,09
Net result	3.055.943	760.325	242.313	24,88	31,87
Rate of return	1,24	0,31	0,28	25,19	88,30
Average number of employees	468	371	342	79,27	92,18
Average annual labor productivity	527.441,68	657.173,76	257.306,36	124,60	39,15

Source: Own data processing according to the financial information of S.C. Farmaceutica REMEDIA S.A.

- The financial results of Farmaceutica REMEDIA S.A., a company with a market value of around 30 million lei, were negatively influenced in 2016 by the following issues:

After July 1st, 2015, the reduction in the price of medicines affected the turnover of its own pharmacies;

- The need for law to separate wholesale distribution activities from retail distribution. The separation of the two activities required the rethinking of the functional and support departments, the adaptation of information systems and information flows, the rethinking of the functioning of the logistics department both in terms of warehouse activity and the transport of goods to customers [13];
- the under-expected results of pharmacies newly acquired in Bucharest, all of these pharmacies generating losses. The members of the Board of Directors consider that these pharmacies need 2-3 years to generate profit, the opening of a pharmacy being strictly regulated by the law and can be done within a period of 30-90 days from the acquisition of the license (identification of an operating space to be furnished and sanitized, negotiation of the lease of the space in question, inspections from the Ministry of Health, the College of Pharmacists and Bucharest District Health Insurance House);
- The amount of the *clawback*[i] tax paid by manufacturers forced them to significantly reduce discounts to distributors with a significant negative impact on their margin [14].

The evolution of the share price of Farmaceutica REMEDIA, traded on the BSE with the RMAH symbol, between June and December 2017 is shown in the chart below:

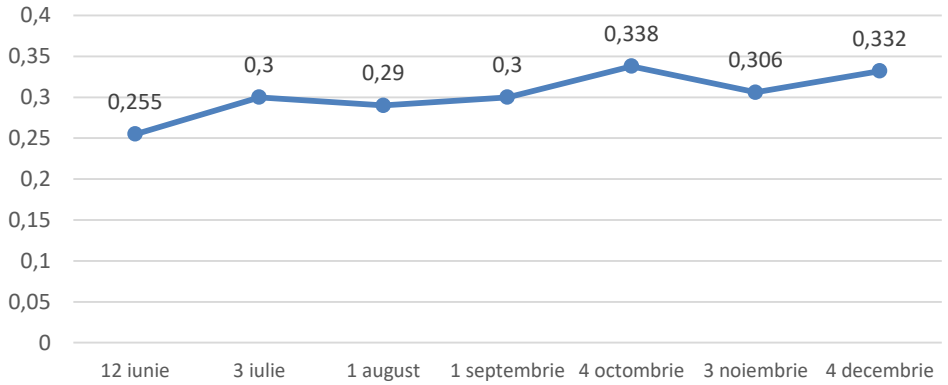


Chart no. 3. The evolution of the closing price - S.C. Farmaceutica REMEDIA S.A.

Company ROPHARMA [9] resulted from the merger between IassyFarm S.A. Iasi, Aesculap S.A. Târgu-Mureş, Medica S.A. Bacau, Global Pharmaceuticals, S.R.L. Brasov and operates according to an integrated business model that includes the distribution of pharmaceuticals and para-pharmaceuticals through pharmaceutical stores; retail through its own network of 129 pharmacies; production of drugs, food supplements and powdered milk; medical services through St. Constantine's multidisciplinary private hospital in Braşov.

In order to form an image of the company's results, some economic and financial information was taken from the financial reports on the basis of which the indicators presented in the table below were calculated:

Table 5. Indicators of S.C. ROPHARMA S.A.

Indicators	Financial year			Indicators of evolution (%)	
	2014	2015	2016	2015/2014	2016/2015
Fiscal value	420.204.448	434.083.007	341.800.000	103,30	78,74
Net result	8.196.404	7.902.138	7.290.748	96,41	92,26
Rate of return	1,95	1,82	2,13	93,33	117,17
Average number of employees	808	829	726	102,60	87,58
Average annual labor productivity	520.055,01	523.622,45	470.798,90	100,69	89,91

Source: Own data processing according to the financial information of S.C. ROPHARMA S.A.

The company Ropharma, with a capitalization of around 190 million lei, registered a turnover of 21.26% in the year 2016 compared to the same period of the previous year. Also during this period, the net profit registered in 2016 is over 7 million lei, down 7.74% compared to the result obtained in 2015, being negatively influenced by the decrease in sales. Against the background of a decline in net profit (-7.74%) at a slower pace than sales dynamics (-21.26%), there was a slight increase in profitability by 0.31 percentage points. The decrease of the turnover by 21.26%, combined with the decrease of the average number of employees by 103 (-12.42%), was generated by the decrease of the average annual labor productivity by 10.09%.

The evolution of the price of ROPHARMA shares traded on the BSE with the RPH symbol during June-December 2017 is shown in the chart below:

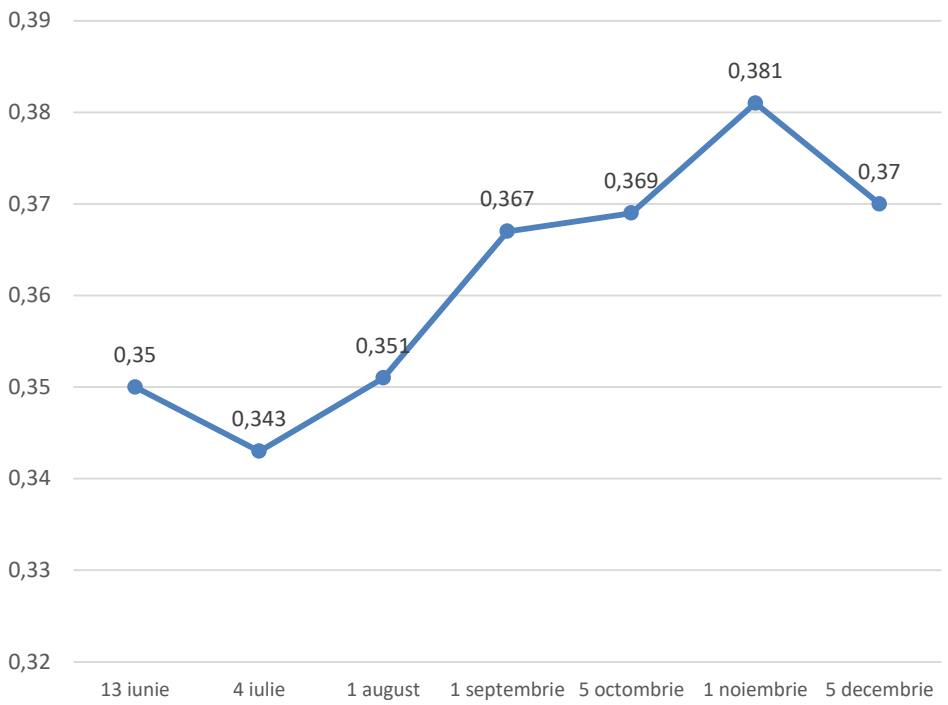


Chart no. 4. The evolution of the closing price - S.C. ROPHARMA S.A.

Company ANTIBIOTICE [10], the leading producer of generic medicines in Romania, was founded in December 1955, and was later listed on the Bucharest Stock Exchange in April 1997. It has been distinguished since then as one of the most important Romanian companies.

The company's core activity is the production of oral solid antiinfectives, being the only pharmaceutical company in Romania to divide sterile powders for anti-infective injections. Antibiotice S.A. of Iasi is a leader in Romanian hospitals production, having the most important market share for topical products (ointments, creams, gels) for the Romanian market, while developing an important segment of products for cardiovascular system, central nervous system, but also oncology.

Numerous international audits (in the European version, and from the Food and Drug Alimentation (FDA) inspectors, the US Food and Drug Administration [11]), that always come to certify the good manufacturing practice system have allowed the company to develop strong partnerships in over 80 countries around the world, with about 30% of the turnover being

made on the international market. Antibiotice has also become world leader for the Nistatin product, a product that is sold all over the world.

Table 6. Indicators of S.C. ANTIBIOTICES.A.

Indicators	Financial year			Indicators of evolution (%)	
	2014	2015	2016	2015/2014	2016/2015
Fiscal value	320.058.304	331.740.206	334.990.720	103,65	100,98
Net result	31.138.740	27.178.823	30.370.812	87,28	111,74
Rate of return	9,73	8,19	9,07	84,21	110,66
Average number of employees	1.465	1.458	1.449	99,52	99,38
Average annual labor productivity	218.469,83	227.531,01	231.187,52	104,15	101,61

Source: Own data processing according to the financial information of S.C. ANTIBIOTICE S.A.

CompanyAntibiotice, with a capitalization of around 370 million lei, registered an increase of 0.98% in 2016 compared to the same period of the previous year. Also during this period the net profit registered in 2016 is over 30 million lei, increasing by 11.74% compared to the result obtained in 2015, being positively influenced by the increase in sales. Against the background of net profit growth (+ 11.74%) at a faster pace than sales growth (+ 0.98%), there was an increase in the rate of profitability by 0.88 percentage points. The increase in turnover by 0.98%, coupled with the decrease of the average number of employees by 0.62%, was generated by the increase of the average annual labor productivity by 1.61%.

The evolution of the price of ANTIBIOTICE shares, traded on the BVB with the ATB symbol, during June-December 2017 is shown in the chart below:

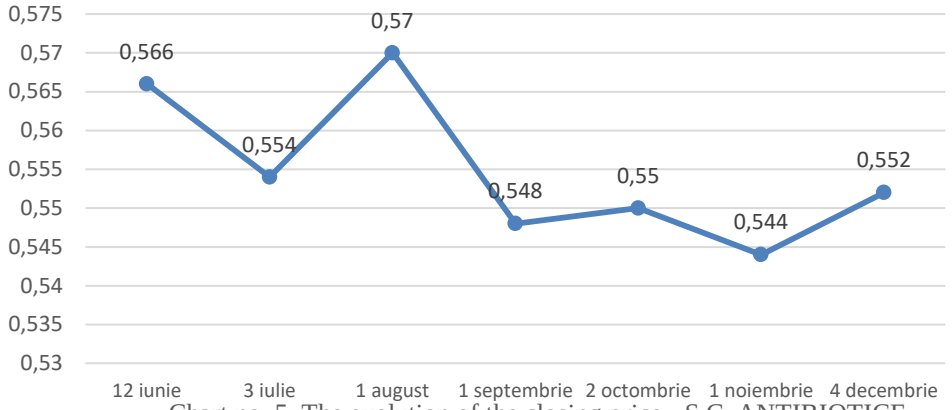


Chart no. 5. The evolution of the closing price - S.C. ANTIBIOTICE S.A.

3. Legal aspects of the trading of listed companies

Joint stock companies have two external sources of financing: commercial banks and the capital market. Participation in the capital market has as a first step the transformation of the joint stock company into a "closed-ended" company into an "open-ended" company by admitting to trading on the regulated market[ii] simultaneously with, or followed by, an initial public offer National Securities Commission [3]. The most important objective of a public offer made by a trading company is attracting money resources from the capital market through new securities issues[iii].

In order to fully benefit from its participation in the capital market, the companycommercial public offering a public offer will state in the Public Offering Prospectus that following the conclusion of the public offer, the company will take steps to admit to trading on the regulated spot market administered by the BVB[iv]. Admission to trading on the regulated market administered by the BSE facilitates any subsequent transaction to attract financing from the capital market, the issuer thus finding the necessary resources for the further development of its activity.

According to Law no. 31/1990 [1], joint stock companies are obliged to keep the following registers by the Board of Directors: the Register of Shares, the Register of Shareholders and the Register of Bonds. SC Depozitarul Central SA is responsible for the maintenance of these registers, having as legal basis the Law no. 31/1990 and the Law no. 297/2004 [2].

Issuers admitted to trading on the regulated market administered by BSE must conclude a service contract with SC Depozitarul Central SA [4]. Concluding this contractimplies the transfer of the obligation to keep

records of the ownership of the financial instruments issued from the issuer to the Registry. Using this feature, the transfer of ownership is done quickly, safely and efficiently.

At the same time, commodities admitted to trading on the regulated capital marketadministered by BSE must meet a number of conditions: be a trading company that has concluded a public offer for sale of shares for admission to trading on the basis of a prospectus offer approved by Romanian National Securities Commission or approved by Romanian National Securities Commission a prospectus prepared for admission to trading; fulfill the conditions laid down in Law 297/2004 at Art.213, par. 1, lit. (a) and (c); to submit to the BSE through the initiating company (a financial investment services company or a banking institution registered with BSE) the required documents, to pay the bills owed to BSE in accordance with its rules; to appoint two persons who will maintain a permanent relationship with the BSE [5]; to adhere to the terms and conditions of the admission to admission and the maintenance of shares.

4. Conclusions

In conclusion, the capital market is characterized by the elimination, in principle, of any barriers to the free consenting of translative property legal acts on financial instruments admitted to trading. Any restriction on the exercise of the rights of investors in general and of the shareholders of a issuing company in particular comes in collision with the principle of freedom of bargaining regardless of whose person or authorities the limitation occurs.

In this respect, the free exercise of the right of preference in the case of increases in share capital is an expression of the principle of the freedom of bargaining. The rationing or limitation of the right of preference belonging to minority shareholders through the exclusive will of the majority shareholder affects the right of each shareholder, and maintains the percentage of participation in the share capital of the issuer in the event of a share capital increase, and as a consequence to keep the value of the holding's holdings unchanged. Any increase in share capital has, as is known, the effect of diminishing the market value of the share price.

By limiting the participation in the increase of the share capital, the total value of the shareholders' share bearing the effects of this measure is affected, without any means of defense against this interference. The old quorum conditions, in the case of companies traded on a regulated market, made it almost impossible to raise or restrict the right of preference, but in

the situation created by O.U.G. no. 90/2014 opens the way of abusive exercise by majority shareholders of the right to impose the adoption of a GMS to increase the share capital by raising the right of preference of other shareholders. Thus, the need for cash cash for business development determines a major shareholder / contractor to resort to the capital market or, in the situation created by the new regulation, opens the path of abusive, abusive conduct of the majority shareholder to the detriment of the minority shareholders of the investors who had previously financed the company. Thus, in the first instance, the entrepreneur may determine the listing of a company by increasing its share capital and offering newly issued shares to investors through a public offer on the capital market. In the second stage, after securing its financing through the cash contributions made by the investors who subscribed to the offer considering the fact that they will acquire shares in a developing company, the majority shareholder, which will continue to own over 75% of the the share capital will impose in a new GMS an increase in the share capital by raising the preference right of the other shareholders and by making a contribution itself in kind. The effect of the product will be to dilute the holdings of other shareholders and to lower the market value of their holdings.

References

[1] Law no. 31/1990 on companies republished with subsequent amendments and completions

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[3] RNSC Regulation No. 1/2006 on issuers and transactions with securities with subsequent amendments and completions.

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End notes

[i] *Clawback* is a tax applied in the pharmaceutical industry and requires all drug manufacturers to contribute to the financing of the public health system with a sum of money ranging from 5% to 11% of the proceeds from the sale of the products.

[ii] in accordance with the provisions of the Law No. 297/2004 on the capital market as amended by Law 208/2005, in conjunction with the provisions of Romanian National Securities Commission Regulation 1/2006 and No. 32/2006 and of the decision of the Extraordinary General Meeting of the shareholders of the issuer.

[iii] in our case shares issued in dematerialized form.

[iv] The Bucharest Stock Exchange fulfils its preponderant role on the Romanian capital market by imposing transparency requirements on the stock market and by ensuring levels of efficiency and liquidity that will contribute to the substantiation of investment decisions and the adequate protection of investors.