

China Healthcare

Takeaways from call with retail pharmacy expert: UEBMI reform net positive so far

Industry Overview

We invited Mr. Tong Liu, Deputy General Manager of Quanyi Health Pharmacy, to share his observations and address the market concerns regarding the dynamics of the retail pharmacy industry. The expert's observation is based on sample channels in limited regions, thus may not represent the situation at the national level.

Update of the retail pharmacy operation and outlook

For 4Q23, Mr. Liu witnessed 10% QoQ sales growth at the pharmacies, driven by the outbreak of mycoplasma infection and influenza. Yet, the YoY change in 4Q23 was negative, given the extreme situation in Dec 2022 owing to the reopening. Entering 2024, Mr. Liu has not seen a significant MoM sales decline and expects a moderate peak before the CNY as there is demand for CNY gifting. Regarding the excessive inventory piled-up during the reopening, such issues were mainly resolved after the sales and impairment provision made through 2023, with a negative impact on margins during the period. Thus, pharmacies' margins are likely to be improved by this in 2024, but the raised procurement price of some CPM products serves as a slightly negative factor. Also, the expert shared the approximate GPM for specific varieties, including OTC (40%), Rx drug (20%), health supplements (50-70%), medical devices (40-50%), and drugs for fever, cough, antiviral, and antibiotics (>50%). Besides, there was signs of consumption downgrade, but was not significant at retail pharmacies. For instance, the high-end Ejiao product and other high-value products, outside the medical insurance list, faced pressure for promotion. The expert also commented that the concentration ratio of the retail pharmacy industry might not be as high as in developed countries since the BMI policy is not universal in China. Yet, the consolidation is encouraged by the government, as the compliance level for BMI usage at chain retail pharmacies is comparably higher.

UEBMI is net positive so far but still evolving

The implementation of UEBMI reform on reimbursement at retail stores has been taking place since 1H23, and the specific regulations are different in cities. For instance, some cities recognize prescriptions from online platforms, and others only recognize those from designated local hospitals. Most cities do not have an annual amount of reimbursement quota for one pharmacy store, while most cities have an annual quota for each individual. Moreover, only a few regions have requirements for mark-up of covered drug products at present. For example, some VBP-related products can only have a 15% mark-up in certain regions. Additionally, the reimbursement ratio is higher at community hospitals and clinics than at retail pharmacies, and some pharmacies choose to lower the retail price voluntarily to compete for consumers. Overall, despite the income to personal UEBMI accounts decreased because of the reform, the expert believed that the reform has benefited the industry so far, since some pharmacies at the regions that adopted the reform saw 15% same-store growth, while the rest and those at regions without reforms only saw 1-2% growth. Meanwhile, BMI's abuse is highly monitored, and the regulator would take measures, such as limiting the reimbursed indication if the usage of specific product abnormally enlarged.

24 January 2024

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UEBMI: Urban Employee Basic
Medical Insurance

CNY: Chinese New Year

CPM: Chinese Proprietary Medicine

OTC: Over-the-Counter

BMI: Basic Medical Insurance

VBP: Volume-based procurement

GPM: Gross profit margin

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Timestamp: 24 January 2024 05:58AM EST

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