



GENOMMA LAB: A STRONG BRAND STRETCHING BEYOND ITS BORDERS

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ABOUT THE AUTHOR

Feroz is the joint head of the Global Emerging Markets boutique. He is also responsible for managing the Old Mutual Global Emerging Market Fund.

Mark Twain is credited with saying, "History doesn't repeat itself, but it often rhymes" – a quote that pops up many times in investment literature. Investment management is one of the few industries where practitioners tend to peak in their later years. This is primarily because time plays a vital role in demonstrating investment skill over pure luck. Over time, an investment manager lives through various investment cycles, scenarios, booms and collapses – and learns from them.

As an emerging markets manager, we often feel that the importance of time and experience is intensified. We cover companies in various countries that are often experiencing very different cycles and different stages of development, with some booming while others are collapsing.

KEY TAKEOUTS

- PHARMACEUTICAL COMPANIES CAPITALISE ON REGIONS WITH GROWING AGEING POPULATIONS
- UNDERSTANDING MARKET CYCLES AND APPLYING THE LEARNINGS IN DIFFERENT REGIONS IS A POWERFUL INVESTMENT TOOL
- OUR GLOBAL PHARMACEUTICAL RESEARCH AND EXPERIENCE ENABLES US TO PRICE EARNINGS IN DIFFERENT MARKETS WITH GREATER CONVICTION

The pharmaceutical industry is a great illustration of this. We've grown up investing in South Africa where we've witnessed, analysed and invested in Aspen – which, through its superior distribution network, has evolved from importing patent drugs into being a leading manufacturer of complex products.

Similarly, we have researched and invested in some very large, successful and globally admired pharmaceutical companies in India, which manufacture complex generics and biological products that are sold worldwide. Like Aspen, these companies derived a competitive advantage from low-cost manufacturing, marketing and distribution.

We've also researched and invested in Chinese pharmaceutical companies that were misunderstood by the market, allowing us to buy them at very attractive prices (and make multiples of what we had invested). These companies started off manufacturing traditional Chinese medicine, which was very lucrative for them. Global pharmaceutical multi-nationals struggled to dominate the Chinese market because local pharmaceutical players also invested significantly in research and development (R&D) and tailored their medicine for their markets. What China taught us is that the localisation of product matters and enables domestic pharmaceutical companies to secure a competitive advantage.

All of which brings us to a Mexican pharmaceutical company we first invested in four years ago, Genomma Lab. Our first purchase of Genomma Lab was at around 11 Mexican pesos a share (today it's trading around Mex\$16.00).

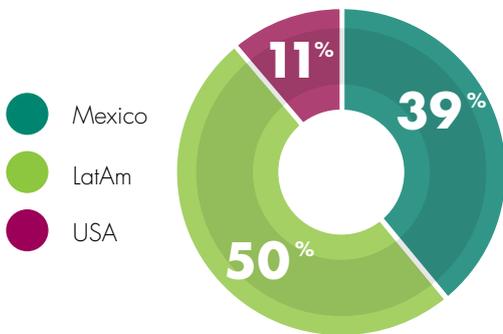
COMPETITIVE ADVANTAGE

Genomma Lab is one of the leading pharmaceutical and personal care products companies in Mexico, with an increasing

international presence. The company develops, sells and markets a broad range of premium branded products, many of which are leaders in the categories in which they compete in terms of sales and market share.

Genomma Lab relies on the combination of a successful new product development process, consumer-oriented marketing, a broad retail distribution network and a low-cost, highly flexible operating model. The company is the largest over-the-counter player in Mexico, with 13% market share, and the fifth largest personal care business, with 6% market share in a highly fragmented market.

GENOMMA LAB SALES



Source: Company Reports

Over the years, Genomma Lab has built up an impressive distribution model coupled with best-in-class sales and marketing. The company can develop an advertisement in-house, test its viability and air within 24 hours. The next phase in their evolution is also currently underway as the business is investing Mex\$1.3 billion in its manufacturing capability and plans to deliver high single-digit cost of goods savings and a return on invested capital (ROIC) of greater than 30%. A recent visit to their Mexican operations by two of our analysts confirmed our view on the company's ability to achieve these targets.

Latin America is an extremely attractive market due to growing, ageing populations combined with increasing GDP per capita that should drive per capita healthcare spend. The fragmented pharmaceuticals industry also provides larger players with the opportunity to consolidate. In addition, Genomma Lab also has a lucrative presence in the US market, which has a large Hispanic population that is familiar with the company's products.

INVESTMENT CASE

Genomma Lab currently trades on a 10 times price-to-earnings (PE) multiple on relatively low earnings versus a long-term average of 15 times. In addition, the company has transformed its business

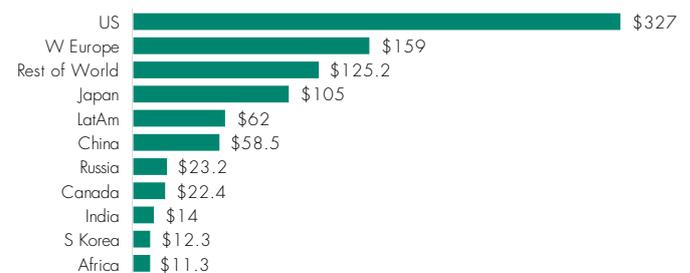


model through in-house manufacturing, which will translate into higher profit margins and a higher ROIC. We believe that the company should trade on a higher long-term multiple than its global peers, like Adcock Ingram (16x PE) in South Africa, as the growth and returns are superior.

Our global pharmaceutical research and investment experience enables us to price earnings of the different pharmaceutical companies with great conviction. After all, we can compare companies in different life stages and often see companies ahead of their development phase. Mexico exhibits characteristics of both South Africa and China in that the local population is attracted to Mexican brands with strong local heritage. In addition, the investment in manufacturing capability will move the company's earnings power to levels in line with their global peers and hence earn it a substantially higher rating in future. ■

LATAM IS THE FIFTH LARGEST MARKET GLOBALLY

US\$ BILLION



Source: IMS data, Barclays Research