

New M&A opportunities in the Italian market of retail pharmacies

Ownership of retail pharmacies in Italy has traditionally been subject to restrictions; however, an evolving trend towards liberalization, to align the Italian market to that of other EU countries, is now changing the face of the market. The new legislation towards liberalisation will relax rules on ownership of retail pharmacies.

The opportunities for investments in the sector are also a reflection of the crisis in the privately-owned pharmacies sector. Economies of scale, with standardised practices and organisations, may be the way out of the crisis affecting the sector currently.

The bill has been approved by the House of Deputies on 7 October 2015, and is currently under discussion in the Senate. The Minister for the Economic Development has forecasted that the law be approved within the end of the year.

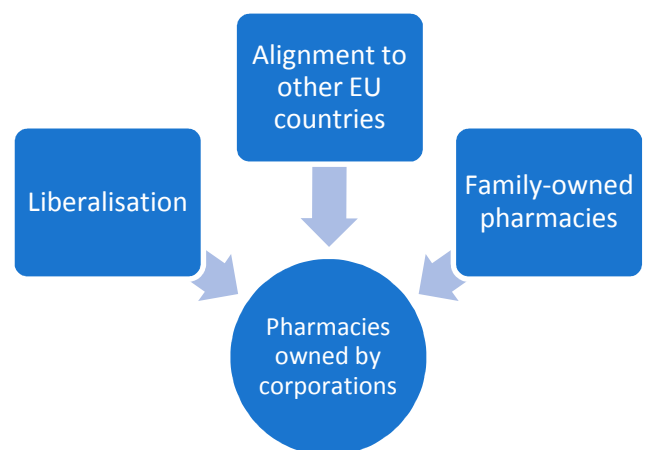
The previous regime

The sector is currently governed by Law 362/1991, as amended, which imposes strict restrictions on the ownership of pharmacies, providing that pharmacies could only be owned by individuals, cooperatives or partnerships. Furthermore, a cooperative or partnership can in turn have only pharmacist members and partners and could own no more than 4 pharmacies.

The main changes of the reform

After months of bargaining, the reform will allow corporations to become the owners of pharmacies.

Among many other sectors of the Italian economy which will be affected by the reform, the opening of the retail pharmacies' market to corporations is definitely a point of great interest. Nevertheless, in order to prevent any conflicts of interests, the reform shall provide that corporations that own pharmacies may not have any



shareholders that are pharmaceutical manufacturers, pharmaceutical sales representatives, and doctors. Pharmacists may continue to own pharmacies, individually or through partnerships or cooperatives.

The more relaxed restrictions on ownership, however, will not alter the requirements that pharmacies continue to be managed exclusively by pharmacists, who will therefore need to be appointed by the new corporate owners for such role.

Corporations that own pharmacies will be subject to stringent reporting requirements, and will have to make public their shareholding structure, as well as any changes in shareholding and their by-laws, as amended from time to time, to all required authorities. Also, the by-laws of corporations that own pharmacies shall have one sole corporate purpose, i.e. the ownership of pharmacies.

The reform shall also discipline other aspects of the retail pharmacies' legislation. Among the others, pharmacies licensed for operations in small towns, with less than 6,600 residents, whose productivity has likely decreased in the current economic framework, will be allowed to re-locate to another town, within the same Region, by paying a one-time relocation license fee.

Also, the reform shall confirm that category C medicines (i.e. medicines entirely paid by the citizens, with no public contributions), may be sold by pharmacies only. Despite many political parties who struggled to allow para-pharmacies to sell these medicines as well, the Parliament has decided to maintain this 2 billion € market within retail pharmacies only.

Moreover, the reform shall allow more flexibility in opening hours of pharmacies, providing that the opening and closing hours set out by the National Health Service (*Servizio Sanitario Nazionale*) will be binding only with reference to the minimum service to be provided by the pharmacies, but may be extended subject to notice to the authorities and appropriate signs on site.

A new market

This reform may open a completely new investment market, allowing acquisitions of, and mergers among, Italian pharmacies, thus finally aligning Italy to many other EU Member States (such as the United Kingdom).

Many small businesses in economic distress may view investments in their business as a great opportunity. In turn, investments in the sector may be more profitable, if economies of scale are applied.

The liberalisation in pharmacies' ownership may also call for further assessments under the licenses/public incentives' perspective, which have been granted to pharmacies under the previous regime of strict rules on ownership. The industry will likely have to engage in discussions with the competent authorities, to smooth the transition without relevant concerns.

Key points:

- Bill expected to become law within the end of the year
- Corporations' sole corporate purpose must be ownership of pharmacies
- Doctors, pharmacists, producers and drug representatives cannot own shares in these corporations
- Management of pharmacies must be in the hands of a pharmacist owned by a corporation
- Enhanced disclosure obligations of corporations that own pharmacies, obligation to make public by-laws and shareholding structure
- The sale of medicals with no prescription of the doctor remains with the retail pharmacies, and not with the para-pharmacies



Snapshots

- Liberalisation of the pharmacies' sector
- New M&A opportunities
- Crisis of family-owned pharmacies
- Economies of scale
- Careful assessment of public incentives required

The Reform at a glance

The Reform

- Corporations are now allowed to own retail pharmacies
- Their corporate purpose must be limited to the ownership and management of pharmacies
- Several limitations apply

Investment Opportunities

- A new M&A market
- Possible privatisation of municipally-owned pharmacies, which generally comprise a large network, and potential acquisition of the whole network;
- Possibility of re-locating pharmacies in certain cases, and extending opening hours, to gain competitive advantages
- The 2 billion market of the category C medicines remains with retail pharmacies only.

Key issues

- Disclosure obligations
- Other operators of the pharmaceuticals market, as "related parties", cannot be shareholders
- Ensuring smooth transfer of the licenses and incentives to pharmacies in case of change of control

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