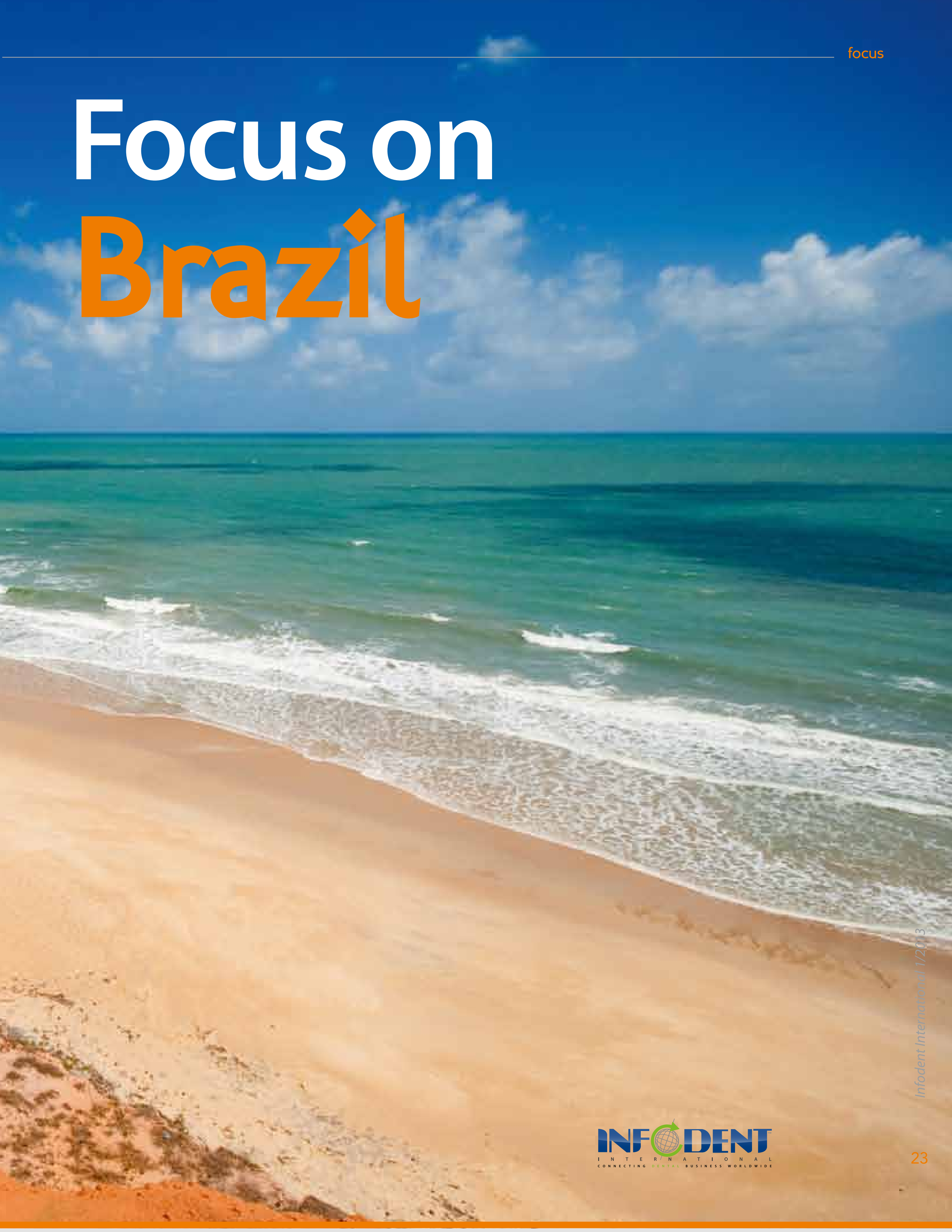
Focus on Brazil



Facts & Figures

Percentage of population below 40:
65%

2012 estimated GDP growth:
2%

GDP (current US$):
2.477 trillion 2011

Population:
196.7 million 2011

GDP per capita at purchasing power parity:
US$12,820

Urbanization rate:
85%

Sources: World Bank; National Statistics Office

Achievements

Brazil is the 5th largest country in the world in terms of area and population, with 196 million people and a territory covering about half of South America. In the last decade, the Brazilian population grew on average only 1.17%, confirming the slowdown in fertility rates that has started from the 1960s.

The Soutwest Region has the biggest population, but the North has recorded the highest increase between 2000 and 2010. The most populated states, which include São Paulo, Minas Gerais, Rio de Janeiro, Rio Grande do Sul and Paraná, account for about 59% of the total population.

According to a recent report by the OSECH (Swiss Business Network), the economy, the sixth largest in the world with GDP reaching US$2.5 trillion in 2011, is highly diversified with a strong export of commodities such as coffee, ethanol, steel and iron ore, and solid mining, food and construction industries. Other important industrial sectors that developed in recent years are automotive, machinery and equipment, petrochemicals, computers and aircrafts.

Brazil is member of the Mercosur together with Argentina, Paraguay, Uruguay and Venezuela. Although the ultimate goal of the trade agreement is to build a common market, potentially the fourth-largest trading bloc in the world, obstacles in developing a common trade policy and currency are still hindering the efforts towards a deeper economic integration.

The Brazilian economy has achieved considerable results in reducing poverty and expanding its middle class. The government has implemented wide social programmes and lifted the minimal salaries, allowing over 20 million Brazilians to get out of poverty and broadening the middle income group to over 100 million people, over half of the total population. However, high inequalities still persist between a growing wealthy élite and the poorer social strata, as it is still evident in some areas of the country and in urban-rural comparisons.

The economic performance of Brazil in the last decade has been very positive, with sustained growth ranging about 7% led by exports and growing domestic consumption, and even the global economic downturn didn't affect the country as much as it has done in North America and Europe. Unemployment remains at below 6% and wages keep growing, continuing a trend that has seen a 70% increase in minimum wages in the same period.
The trade balance is also positive, as in 2011 exports totalled US$256 billion and imports 226 million. Although the imports of manufactured goods have increased, domestic manufacturers are favoured by protectionist import duties.

According to the most recent estimates, Brazil's growth has entered a stalling phase. Lower than expected investments, although low interest rates, make analysts forecast a mere 1% growth for 2012. Compared to Peru and Chile, which both scored over 6% growth in 2011, or even Mexico with 4%, the Brazilian economy is now facing some negative consequences arising from complicated regulations and a highly protectionist business environment, so the current slowdown is becoming less sustainable than in the past also due to lower export revenues determined from the global decrease of commodity prices.

In particular, Mexico is emerging as the region's second-largest economy and a rival for the role of favoured investment destination in the next few years, mainly due to a stronger manufacturing base that allows the economic growth to loosen the ties to commodity prices and benefit from the rise of average wages in China. Mexico alone exports more manufactured goods than the rest of the region put together.

However, a positive impact on the Brazilian economy is expected from the stimulus provided by increased public and private investments ahead of the FIFA World Cup in 2014 and the Olympics in 2016, while the discovery of new offshore oil and natural gas reserves, estimated in 14 billion barrels and 423 billion m3 respectively, is also attracting high investments.

Healthcare

A general outlook on healthcare delivery - The Brazilian unified health system (known as SUS, Sistema Unico de Saude) implemented in 1988 to guarantee universal health coverage, replaced a former two-tier system based on working contributions or private spending, leaving a great share of the population without coverage.

Since the SUS was launched, the number of beneficiaries grew from 30 million to 190 million, 80% of which currently depend exclusively on SUS to access health services. Decentralization was a key feature of the new strategy, as the main functions of SUS arer now administered by States and municipalities, while the federal government is responsible for coordinating national policies and also runs several hospitals throughout the country.

The primary care network (consisting of about 64, 000 primary healthcare units) has been strengthened to serve as the main provider of medical treatment and consultations, dressings, dental care, and vaccinations as well as laboratory tests and basic medication. The so-called Family Health Strategy involves a multi-professional Family Healthcare Team that is responsible for a geographic area including up to 4,000 people, where it provides promotion, protection, prevention, recovery and rehabilitation actions to individuals and families.

More complex cases and patients in need of specialist treatment are referred to Specialized Outpatient Centers (NASF) and hospitals. **By covering about 80% of the health problems, primary care units relieve hospitals from many unnecessary referrals.** The government stated that more than 25,520 Primary Care units are expected to be built, expanded or renovated by 2014, giving priority to those municipalities in the "Brazil without Misery" program that haven't yet been equipped.

The public SUS network includes:

- **6,493 hospitals**
(69 federal, 618 state and 2,278 municipal hospitals; the remaining are private and university hospitals also serving the public system)

- **64,000 primary health care units**

- **31,000 Family Health Care Teams**

- **2,476 Specialized Outpatient Centers**

Despite the important achievements, however, the public sector experiences challenges in funding and training for primary care and long waiting lists for specialized care. Moreover, the income and urban-rural inequalities are mirrored in the different ability of population to access medical services.

Private healthcare - The private healthcare market is regulated by the Agência Nacional de Saúde (ANS), the National Health Agency. On the total population, only about 23%, or 46 million people, have private health plans due to their expensiveness. Besides company insurances and personal plans, the market also comprises out-of-pocket payments, which are common and weigh disproportionately more on lowest income strata of the population than they do on the wealthier groups.

The trade balance is also positive, as in 2011 exports totalled US$256 billion and imports 226 million.

The main players of the sector are Managed Care Organizations (MCOs) and Dental MCOs, operating private plans that usually have owned facilities and third party networks, also known as group medicine (37%); companies that manage private health plans/services for other institutions; Medical (and Dental) Cooperatives operating private healthcare plans on a not-for-profit basis (36%); philanthropic Institutions; self-insurers providing coverage only to active/former employees or dependents; health insurance companies subject to Private insurance Agency (SUSEP) besides ANS regulations (12%).

The market is highly concentrated: 37 out of the 1,000 insurance companies have a 50% market share, while about one third of them covers up to 90% of the market. 75% of plans are made up by corporate policies.

As the middle-class income group (with income between US $625 and US $3,100) has reached the 100 million, and is projected to keep growing at 10% percent per year until 2016, private health care plans are expected to see a rapid expansion.

Import and export trend, Dental sector

		2006	2007	2008	2009	2010	2011
Imports	Million US$	26.5	36.1	44.3	45.8	59.2	79.9
	increase y-o-y	/	36.2%	22.7%	3%	29%	34%
Average increase		**24.9%**					
Exports	Million US$	64.4	82.8	82.5	70.4	84.4	86.2
	increase y-o-y	/	28%	-0.1%	-17%	19%	2%
Average increase		**6.38%**					

Source: ABIMO, own elaboration

The uneven distribution of population and resources between inner municipalities and coastal areas is mirrored in the private health care sector, as the main players are located in large metropolitan areas and focused on high income regions, but inner areas and the north eastern part of the country, that is experiencing better growth rates than the rest of the country, are offering a good potential for the future development of the sector.

Oral Health

Advances in Brazilian oral health policy - Before 2004, Brazil lacked an effective oral health policy, as dental services were offered together with other health services without a clearly defined strategy to allow all groups of population achieve better oral health conditions. Mostly, free treatment was given only to children up to 12 years old and pregnant women, while adults and the elderly had access only to emergency dental care. Within the public health system, specialist treatments accounted for only 3.3% of the total and the majority of treatments performed were simpler procedures such as tooth extraction, fillings, minor surgery and fluoride application.

The National Survey of Oral Health, "SB Brazil", conducted in 2003 by the Ministry of Health, found that 13% of adolescents had never been to the dentist, 20% of the population had lost all his teeth and 45% of Brazilians didn't have regular access to toothbrush. Due to the very limited access to dental care, it was estimated that in 2002 75% of the Brazilian population had lost all their teeth by the age of 60. These findings showed how big the social exclusion in the oral health domain was.

In 2004 the Ministry of Health, under direct intervention of President Luiz Ignacio Lula da Silva, launched the national oral health policy known as "Brasil Sorridente" (Smiling Brazil) to tackle this lack in oral health strategies and resources. This policy set a number of goals and measures to reach them in order to extend oral health services to the large majority of the Brazilian population.

The main initiatives taken under the Smiling Brazil program were:

- fluoridating drinking water;
- reorganizing Primary and Specialized Care, expanding the numbers of oral health professionals and teams;
- making more specialty dental services available to a greater share of the population;
- allocating more funds for healthcare;
- distributing more than $72 million worth of oral health kits;
- providing oral health education through the oral health teams.

Oral Health Teams - The delivery of oral healthcare at the primary level was reorganized on a decentralized basis on the same model of the Family Health Teams, with a proportion of one Oral Health Team per each Family Health Team.

The basic Oral Health Team is composed of dentists and dental assistants but there is also a second type of OHT including a dental technician, classified as dental auxiliary. The 21,000 Oral Health Teams are responsible for prevention and education, distribution of kits with toothbrush and toothpaste, fluoride application, and extraction and restoration. They already cover 85% of the country's municipalities.

Center for Dental Specialties – The CEOs (Centros de Especialidade Odontologíca) were created in order to increase the supply of qualified and specialized dental services including endodontics, treatment of special patients, minor oral surgery of soft and hard tissues, stomatology and periodontics. Each of the roughly 900 CEOs in the country receives funding for implementation and monthly incentives based on a minimum monthly production.

Regional dental prosthetics laboratories (LRPD) - Given the demand for prosthetic rehabilitation service, the Regional Dental Prosthetics Laboratories were established to provide such services to people who could not benefit from a health policy. Currently, 675 municipalities have a dental prosthetics laboratory.

Procedures performed include full dentures, removable partial dentures, fixed/adhesive prostheses. Laboratories may be either public or private, but contracted to the municipality or State. Funding is provided according to the range of production.

Results of the "Smiling Brazil" program – In 2011 the 4th national Oral Health epidemiological survey , titled SB Brazil 2010, confirmed the achievements reached by the program by reporting that all regions showed an increased use of the public service and the trend was also mirrored in the number of dental visits. The program was successful in expanding access to public dental services, particularly for the poorest, raising Brazil to the group of countries with low caries prevalence.

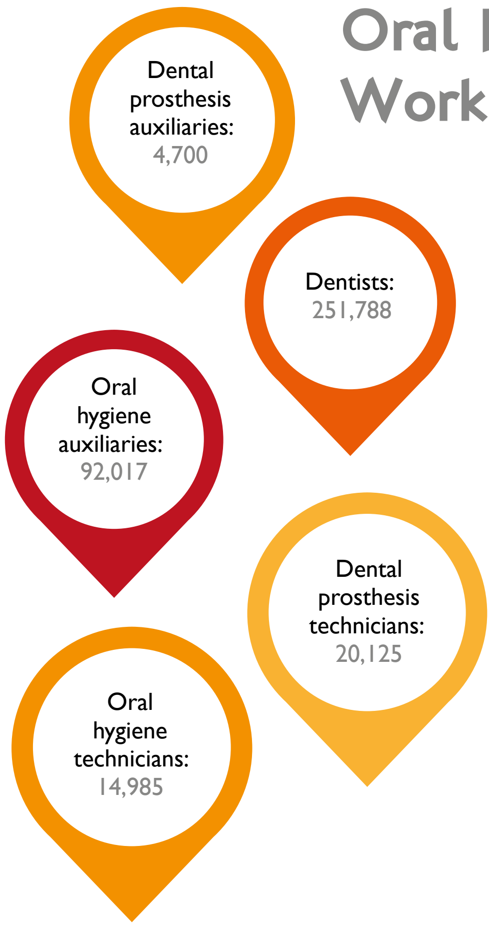
When the program began, only about 20 million Brazilian could access dental care. The figure has now risen well above 100 million, while incidence of caries has been reduced by more than 30% and the number of adult teeth treated has increased by 70%.

To support educational and preventive measures, 72 million kits with toothbrush and toothpaste for adults and children were distributed in 2008 and 2009 in elementary and high schools and by oral health teams.

The Smiling Brazil Program is also targeting the poorest regions of the country through the inclusion of its initiatives in the Territories of Citizenship, promoting the universalization of basic citizenship programs in underdeveloped areas, as well as in programs intended to provide primary and specialized health care to indigenous peoples.

Dr Roberto Vianna, former president of the FDI, stated that "the Brazilian population is beginning to acknowledge that the practice of dentistry is an integral part of good health". The demographic trends are also shaping a new environment for the dental practice in the country, as falling death rates and birth rates have caused a reduction the youth population and an increase of the elderly population.

Oral Health Workforce



A broader diffusion of education at all levels is also impacting people's attitude towards health. Since the Smiling Brazil program has become part of the national health policy and is going to be funded for the next 20 years, the increased awareness towards oral health will lead to a growing demand for dental services. As the government's ultimate goal is to make oral healthcare universally accessible to the Brazilian population, meeting such demand will require further expansion of the system to cover the remaining population.

Dental industry and market

Dental Industry profile - According to the FDI, Brazil is the country with the highest number of dentists in the world, over 250,000, well ahead of USA with 195,000.

On a general scale, the Brazilian government is actively engaged in expanding the country's medtech industry with $6 million invested over 2012 and 2013 for export promotion, aiming to reach US$1 billion by 2014, which would place Brazil in a good position to join the world's top five medtech manufacturers by 2020. The dental segment accounts for about 22% of all the healthcare industry production. Of the roughly 230 manufacturing and 85 exporting companies, over 70% is located in the region of São Paulo.

The domestic manufacturing industry is favoured by protetionistic regulations, allowing it to cover about 60% of national demand, with tops of 90% for implants and prosthetic fittings, according to the "Conselho Federal de Odontologia" (Federal Dental Council). Despite the public government being the bigger provider of dental services, about 85% of domestic sales turnover comes from the private sector.

The dental industry has registered significant export surplus over the last decade, with production worth US$86.2 million exported and imports for a total value of US$80 million in 2011. Germany, United States and South American countries, especially Venezuela, are the main buyers of Brazilian dental equipment and products, which focus on instruments and dental equipment, dental chairs, artificial acrylic teeth, X-ray machines, drills and other dental fillings. Together, Venezuela, Bolivia, Argentina, Peru and Chile account for 28.4% of Brazilian dental exports, with a prevalence of dental practice equipment and chairs.

Implants – Because of Brazilians' increased attention towards aesthetics, Brazil is one of the largest dental implants market worldwide, valued at approximately $195 million in 2011, with exports increased by 87% from 2006 to 2010. The Swiss company Straumann recently acquired 49% of Neodent, a Brazilian company in the top 10 list of dental implant manufacturers.

Oral hygiene – Most manufacturing companies operating in the sector are multinationals that have established local production, often destined to export. Internal demand and consumption has also increased in the last few years. Brazil now represents the second world market for oral hygiene products, valued at about US$30 billion globally, with 9.2% share, behind USA (16.2%) and ahead of China (7.4%).

It is important to notice that in the period 2006 – 2011 dental exports have increased at a yearly average of 6.4%, while imports have registered a faster growth, accounting for a constantly growing demand from the domestic market that the local industry cannot meet.

Dentists and dental prosthetic technicians / breakdown by State

Acre	495	23
Alagoas	2,327	105
Amapá	446	13
Amazonas	2,764	183
Bahia	9,700	657
Ceará	5,354	230
Distrito Federal	6,197	385
Espírito Santo	4,763	261
Goiás	8,242	872
Maranhão	2,881	105
Mato Grosso	3,662	209
Mato Grosso do Sul	3,409	289
Minas Gerais	29,916	2,318
Pará	4,005	173
Paraiba	3,427	225
Paraná	15,939	1,197
Pernambuco	6,644	308
Piauí	2,209	64
Rio de Janeiro	28,782	2,626
Rio Grande do Norte	2,950	120
Rio Grande do Sul	15,287	1,724
Rondônia	1622	62
Roraima	454	10
Santa Catarina	9,654	847
São Paulo	77,457	6,925
Sergipe	1,633	68
Tocantins	1,569	126
Total	251,788	20,125

Source: CFO

Author: *Michela Adinolfi*

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