

Sector View

Pharmaceuticals

	1 M	3 M	6 M	31/12/15
Healthcare	-2.4%	-13.0%	-8.0%	-12.5%
DJ Stoxx 600	2.2%	-7.2%	-1.9%	-6.7%

*Stoxx Sector Indices

Companies covered

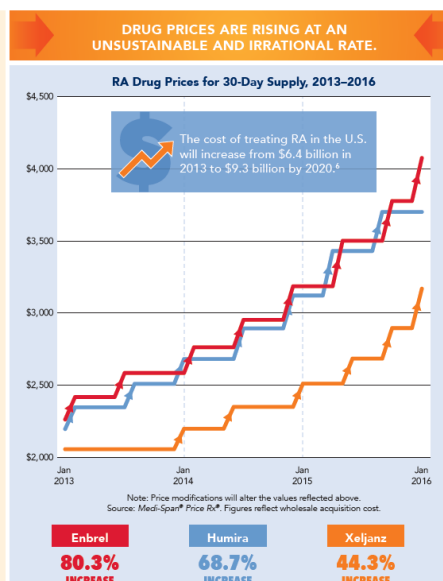
ACTELION	BUY	CHF166
Last Price	CHF142,2	Market Cap. CHF16,229m
ASTRAZENECA	BUY	5520p
Last Price	3915,5p	Market Cap. GBP49,501m
BAYER	NEUTRAL	EUR113
Last Price	EUR103,4	Market Cap. EUR85,506m
GLAXOSMITHKLINE	BUY	1670p
Last Price	1412p	Market Cap. GBP68,770m
IPSEN	BUY	EUR60
Last Price	EUR49,11	Market Cap. EUR4,088m
NOVARTIS	NEUTRAL	CHF100
Last Price	CHF70,05	Market Cap. CHF187,523m
NOVO NORDISK	NEUTRAL	DKK416
Last Price	DKK358	Market Cap. DKK738,398m
ROCHE HOLDING	BUY	CHF303
Last Price	CHF236,9	Market Cap. CHF166,437m
SANOFI	NEUTRAL	EUR88
Last Price	EUR71,27	Market Cap. EUR93,057m
UCB	NEUTRAL	EUR82
Last Price	EUR67,75	Market Cap. EUR13,178m

An illustration among many of the unsustainability of drug price levels

A one-page report has been published by ACHP, a non-lucrative association that ranks healthcare plans in the US, about the rise in the price of drugs used to treat rheumatoid arthritis. As with other diseases before (MS last December), it illustrates very well how prices have increased over the past few years and how unsustainable this looks to the general population. In a nutshell, it says that innovative new drugs are very good "but what if not everyone can afford them?". We report this chart and the related address of ACHP because we think it is very representative not only of the current debate in the US, but also everywhere in the world, a debate that makes investors anxious over the sector performance in 2016.

ANALYSIS

- As often said, pictures speak better than words and the latest one-page ACHP issue in its series called "the spike in drug costs" refers to rheumatoid arthritis and once again (after diabetes in August 2015 or multiple sclerosis in December last year) shows a difficult-to-understand rise in marketed drug prices in the US over the last few years.
- In this specific case, in only three years, old drugs like Enbrel or Humira have seen their prices jump by 70 to 80%. There are 1.3 million Americans suffering from the disease in the US says ACHP and the current annual cost of medicines means that some may have to pay over USD1m over the course of their life.
- Of course, we are talking about list prices. And we have underlined several times how complex the pricing system is in the US that makes real prices difficult to determine. That said, bad publicity around prices is partly the consequence of this lack of transparency and the fact that products have different prices depending on negotiations among parties.
- If you are interested in these topics, please refer to the ACHP website at the following address: <http://www.achp.org/publications/the-spike-in-drug-costs-infographic-series/>. ACHP (the Alliance of Community Health Plan) is a membership organisation that brings together top executives from innovative health insurers and provider groups recognized for delivering affordable, high-quality coverage and care. It regularly reviews and ranks healthcare plans offered by insurer payers.
- Because negotiations on prices take place behind closed doors, people can only refer to list prices. And so when some, like Enbrel in RA, although the same thing happened with interferons in MS or insulins in diabetes (see the respective reports), saw prices skyrocketing (Avonex's price was multiplied by more than six between 2001 and 2015, which has nothing to do with its cost to develop or manufacture and its proven value but simply as a marketing strategy from Biogen to offset volume loss by price increases), it sounds irrational: "first-generation MS drugs, originally costing USD8,000-USD11,000, can now exceed USD60,000 per person per year", writes ACHP. This is obviously the type of behaviour within the industry that is difficult to understand by Americans.
- Clearly, pressure is therefore increasing on the industry to try to mitigate this trend whenever it is possible. We've heard initiatives of public and private origins to force competition, to do the most with it when it can (like with exclusive contracting), to challenge patents, to try obtaining global and negotiated prices etc... And obviously, this is beginning to have an impact on investors' approach to the sector because it impacts how drugs are ramping-up and who knows, maybe also their ability to reach certain peak sales. Because our models look obsolete. Not only net prices are getting tougher and tougher to determine but volumes can also be impacted as some end markets could remain close to certain drugs because agreements are not reached between manufacturers and payers.
- In the end, we confirm our cautious stance towards pharmaceuticals in 2016 after several years of outperformance. We are favouring transformative stories like AstraZeneca and GSK among the large-cap names, Actelion and Ipsen within the mid-cap universe.



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