PRESS RELEASE

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US Pharmaceuticals Have Enjoyed Their Day in the Sun, But Is It Time to Get Out the Umbrellas?

Global credit insurer Coface focuses on US pharmaceuticals in its latest Panorama economic publication.

- **The Affordable Care Act helps to balance the relationship between patients and insurers, but does not address the price problem**
- **A further price increase of 9.3% is expected in 2016**
- **The sector is rated as "Low Risk" by Coface economists, but long-term profitability could be impacted by price reforms**

Despite having the highest healthcare expenditure of all industrialized nations – 17.1% of GDP in 2013 – US public health is far below that of other advanced economies[1]: life expectancy is lower, the obesity rate is double, infant mortality is higher and there is a high prevalence of at least two chronic diseases among seniors.

The gradual implementation of the Affordable Care Act was designed to correct these shortcomings by increasing access to health insurance. Now, the question of cost has become a crucial issue. Three out of five personal bankruptcies in the US are due to healthcare-related debts as healthcare coverage remains unequal and, unlike in other advanced countries, drug companies can freely set drug prices. They justify the high costs by high spending on R&D and the relatively short average duration of patent rights on a worldwide level. Despite the shock to the US economy in 2008-2009, drug prices have continued to rise with no slowdown.

A scenario of lower drug prices is unlikely in the short term

The federal government finds it difficult to control drug prices, contrary to European public systems, due to the fragmented landscape of payers and their diminished negotiating weight. In addition, the Affordable Care Act only covers the development of healthcare coverage and does not have the aim of bringing down drug prices.

Coface sees two drug price scenarios in the United States.

In the short term, Coface forecasts a 9.3% rise in prices by the end of 2016, following 7.2% in 2015 and 8.5% in 2014, mainly due to the arrival of extremely costly specialty drugs on the market. Within

[1] Average indicator of 12 advanced countries: Germany, Australia, Canada, Denmark, France, Japan, Norway, New Zealand, Netherlands, United Kingdom, Sweden, Switzerland

this favorable context for the drug companies, Coface has upgraded the North American pharmaceutical sector to "low risk".

In the long term, under the assumption that the system will be reformed (a possibility that is increasingly being discussed), the potential fall in prices would have positive impacts on patients, but would reduce the profitability of manufacturers. For example, if French prices - which are in the low range of prices implemented in Europe - were applied in the United States, revenues from the drug Harvoni would fall by 45%.

The effect on R&D would also be significant. Given that the costs of bringing a discovery to the market is between USD 1 and 1.5 billion, a price reduction could trigger considerable cuts in R&D spending. The impact would be even greater if the company had a large footprint in Europe, where prices are set via public health systems. This could reduce the incentive to invest in R&D.

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