



# How to secure growth in the pharmaceutical industry - the role of emerging markets

Stewart Adkins

[stadkins@btconnect.com](mailto:stadkins@btconnect.com)

[stewart@saadvisors.net](mailto:stewart@saadvisors.net)

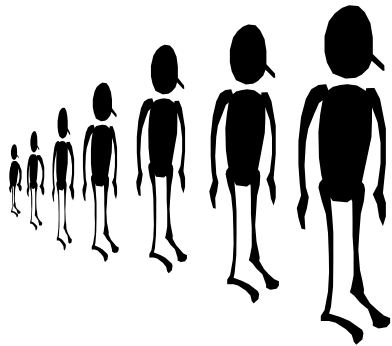


Stewart Adkins **Advisors** Ltd.

# Discussion Topics

- Seismic shifts in the pharmaceutical market
- The scale of patent expiries
- Slowdown in developed markets
- Where is growth coming from?
- Industry reputation
- Income disparities in developing markets
- Traditional business model - inappropriate
- Emerging markets provide more than just sales

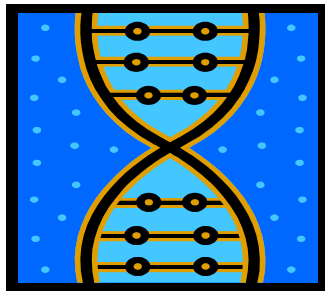
# Four seismic shifts in the global pharmaceutical market



Demographic



Geographic

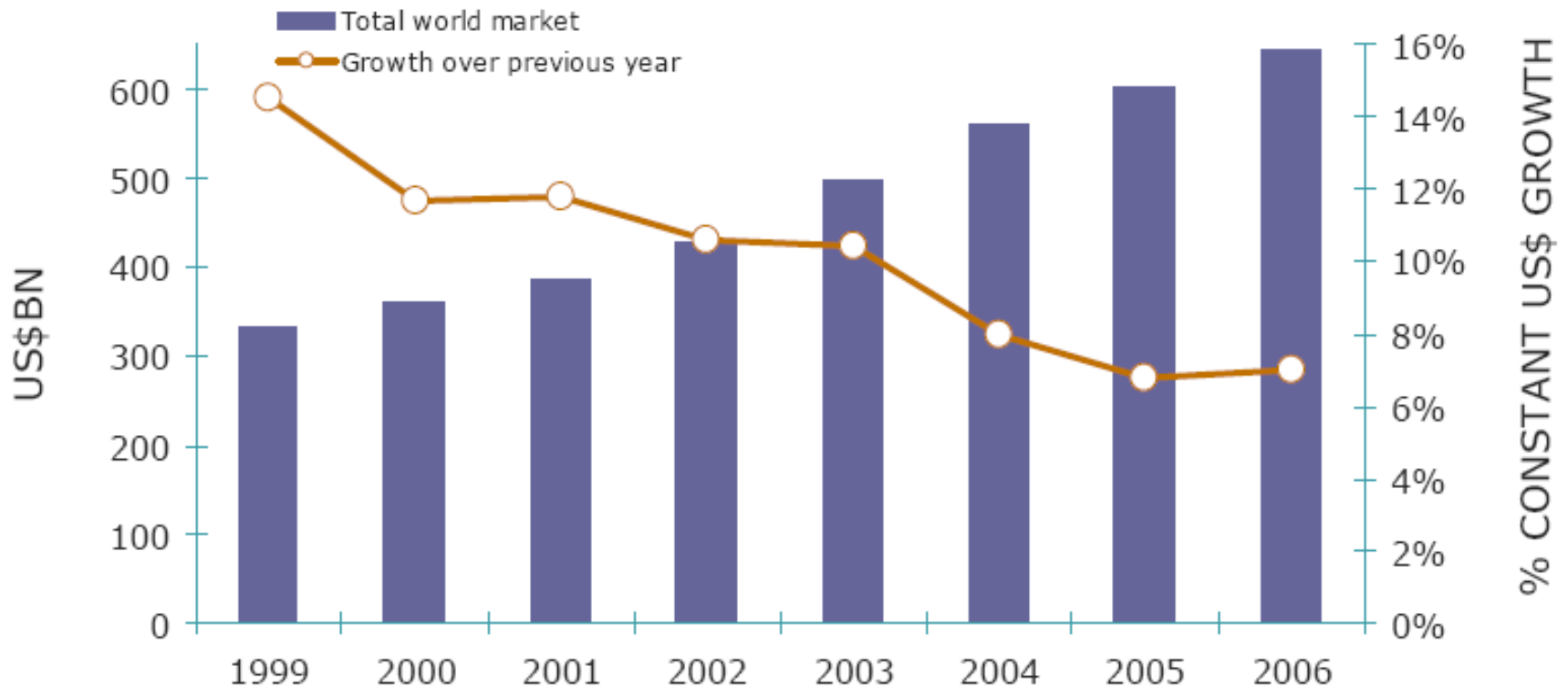


Technological



Expectational

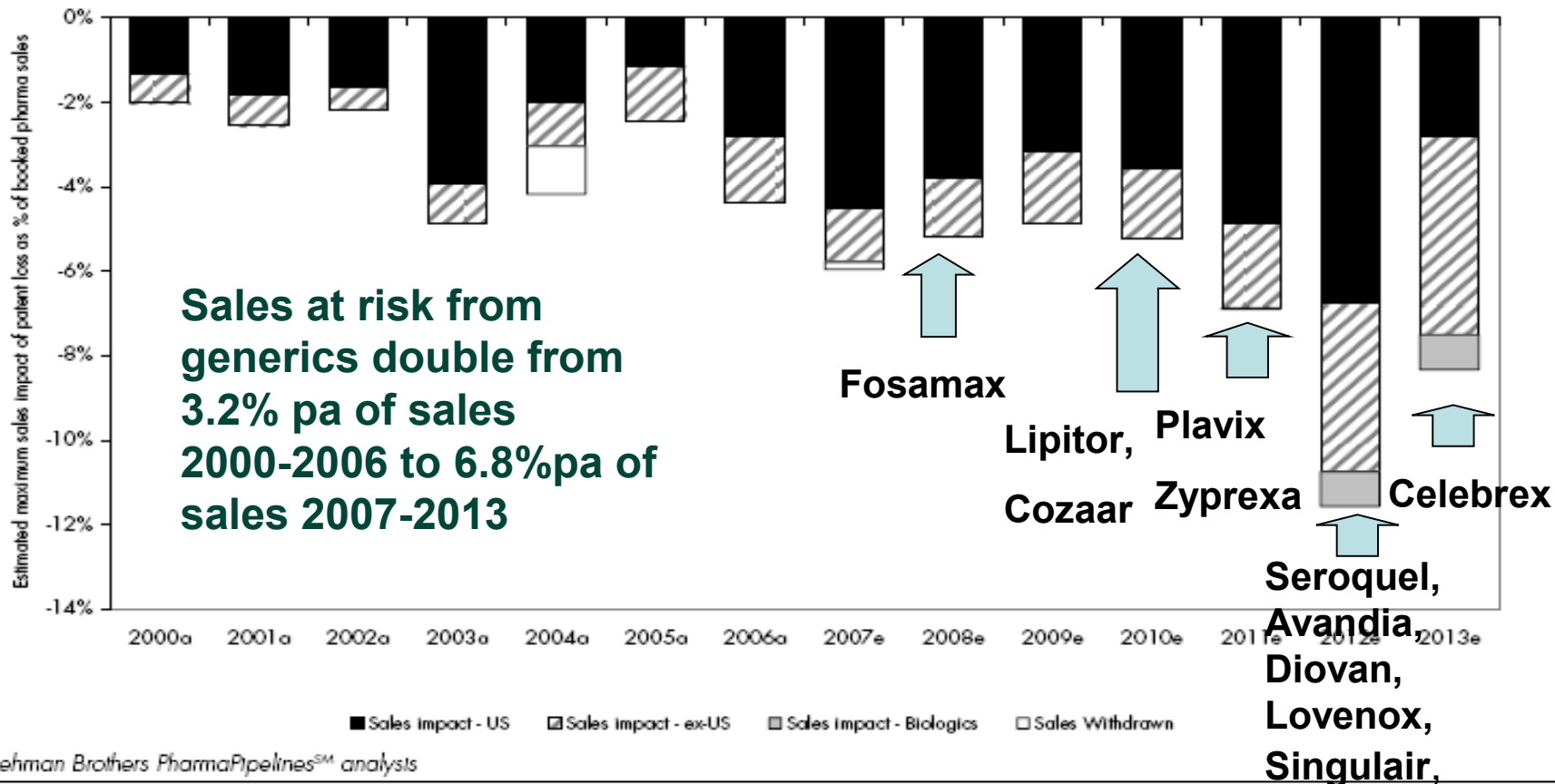
# Recent Stable Growth Rate Unlikely to be Sustained



Source: IMS Health, IMS  
Market prognosis  
International, Feb 2007

# Patent Expiries are the Key Drivers of Slowdown

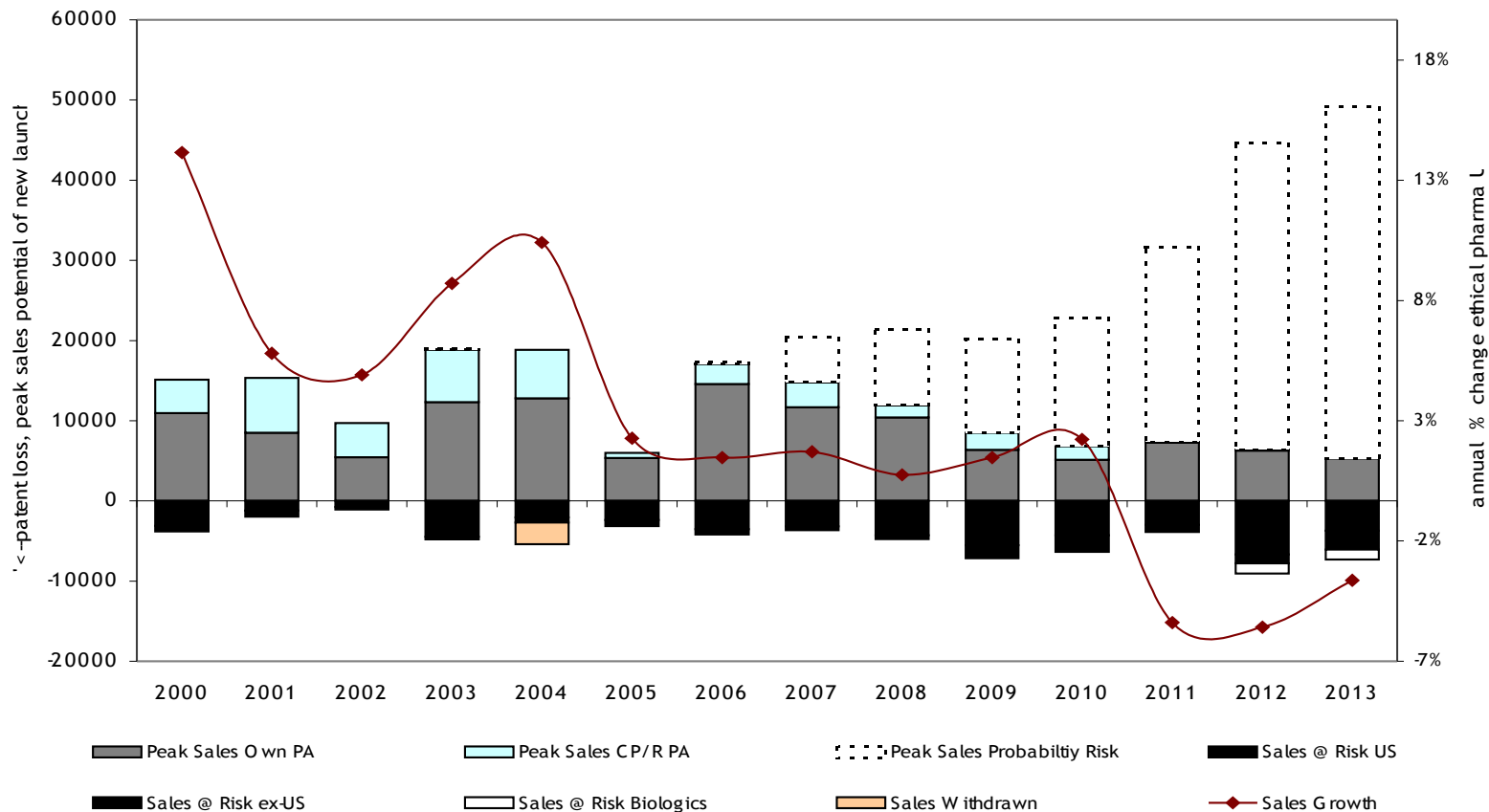
Estimated maximum sales impact due to generics (includes out licensed products - sales of these products are not booked by the out licensing company)  
 Exposure to generics based on branded sales prior to patent loss grading for US patents over following 1yr, for ex-US over following 2 yrs and for biologics over following 5 yrs.



# US Pharma Companies May Show Declining Sales From 2011

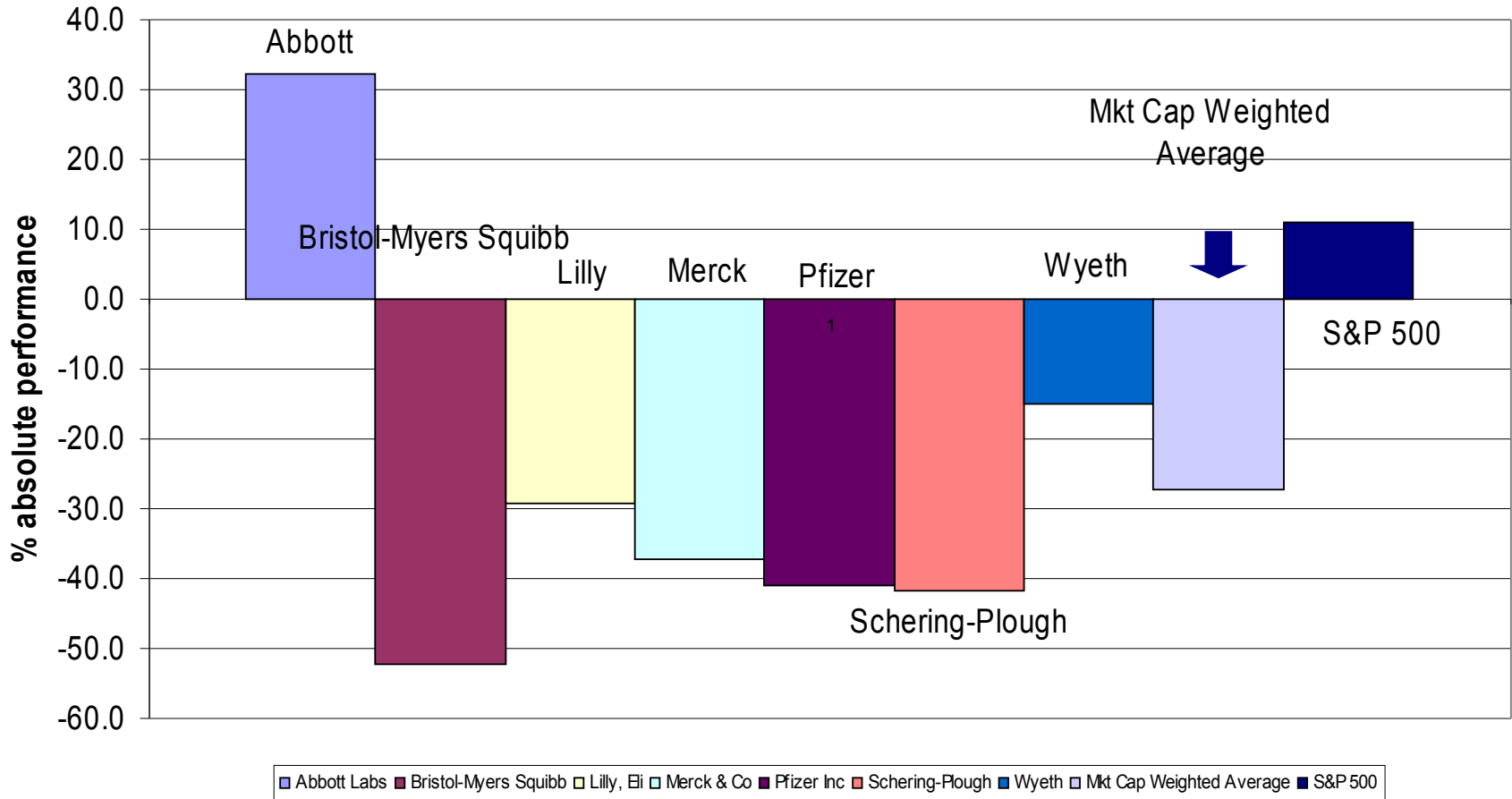
Large Pharma (US)

Sales at immediate risk due to generics vs ultimate peak of new drugs by launch year.  
 Exposure to generics based on branded sales prior to patent loss eroding for US patents over 1yr, for ex US over 2 yrs and for biologics over 5 yrs.

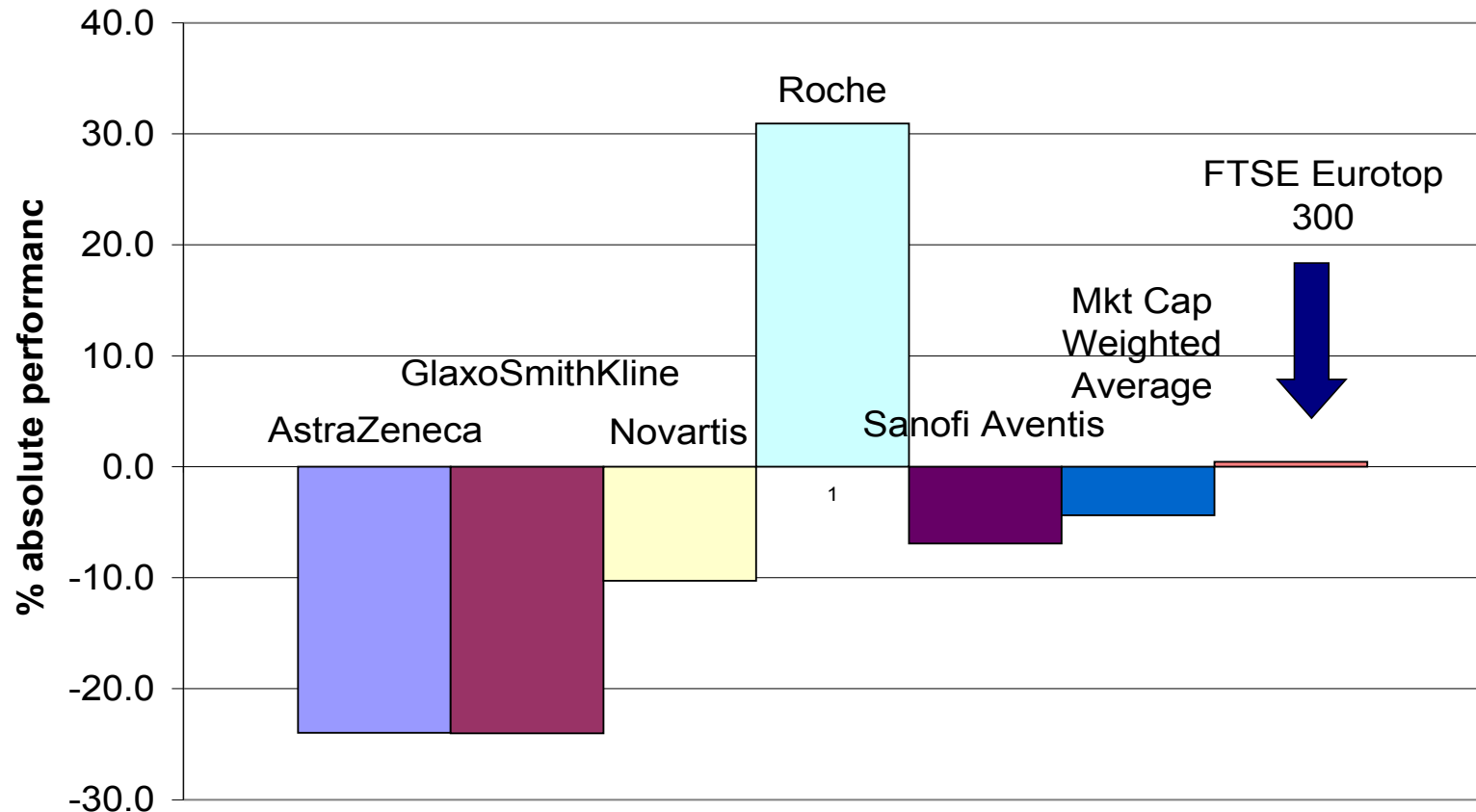


Source: Lehman Brothers  
 Pharmaceuticals Research

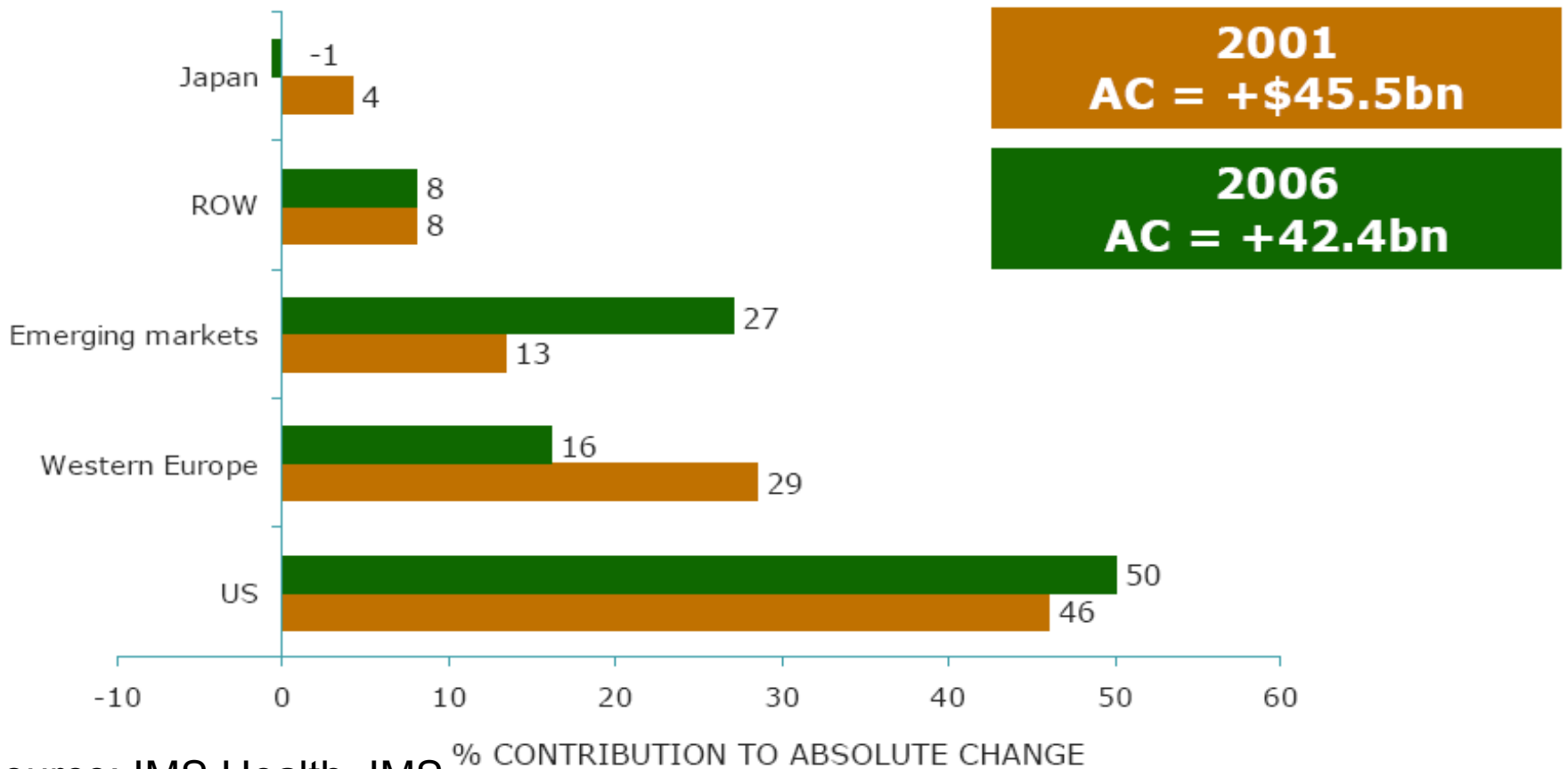
# Dismal Share Price Moves Reflect Poor Industry Performance and Reputation



# European Pharma Has Performed Better - But Still Badly

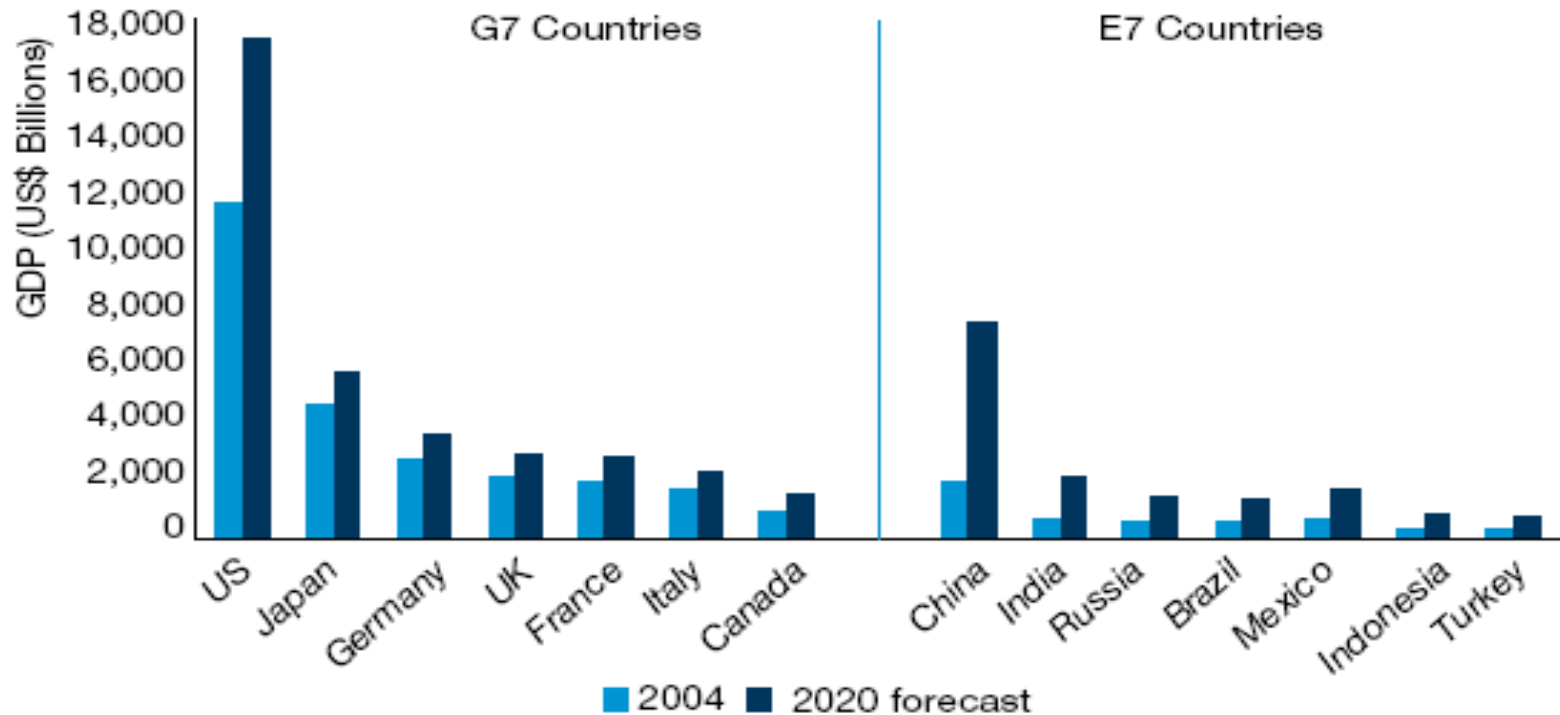


# But Emerging Markets May Be the Saviour



Source: IMS Health, IMS  
Market prognosis  
International, Feb 2007

# E7 GDP as % of G7 GDP Could Rise From 20% to 43% by 2020



Source: PricewaterhouseCoopers Macro Economic Consulting Group

Notes: 2004 estimates based on World Bank World Development Indicators database (except China, which was adjusted for a later large data revision); 2020 projections based on our model

# However Industry Cannot Pursue Traditional Business Model Without Risk

<b>Drug Safety</b>	Understating the adverse reactions associated with a drug	Exaggerating the dangers involved in importing drugs	Failing to monitor the safety of marketed drugs adequately
<b>Clinical Trials</b>	Failing to disclose the full results of clinical trials	Making improper financial arrangements with trial sites	Manipulating trial data to maximise sales
<b>Drug Prices</b>	Charging prices that are perceived as too high	Ignoring social responsibilities in pricing for the developing world	Spending excessively to protect patents
<b>Sales Practices</b>	Promoting products for off-label indications	Providing physicians with financial incentives to prescribe products or write favourable articles about them	Inventing new lifestyle diseases
<b>Investor Relations</b>	Over-managing price/earnings and earnings per share ratios	Remunerating senior management exorbitantly	Ignoring negative publicity
<b>Innovation</b>	Spending R&D funds to develop "me-too" drugs	Spending too much on sales & marketing, and diverting funds from R&D	Developing drugs on the basis of sales potential rather than medical need

Source: PricewaterhouseCoopers

# Did Novartis Pick the Right Issue to Fight about in India?

[ **More than 200 000 people ask  
Novartis to drop its challenge on  
drug patent**

British Medical Journal. By Sally Hargreaves  
3 February, 2007

# Pharma Must Not Take its Licence to Operate for Granted

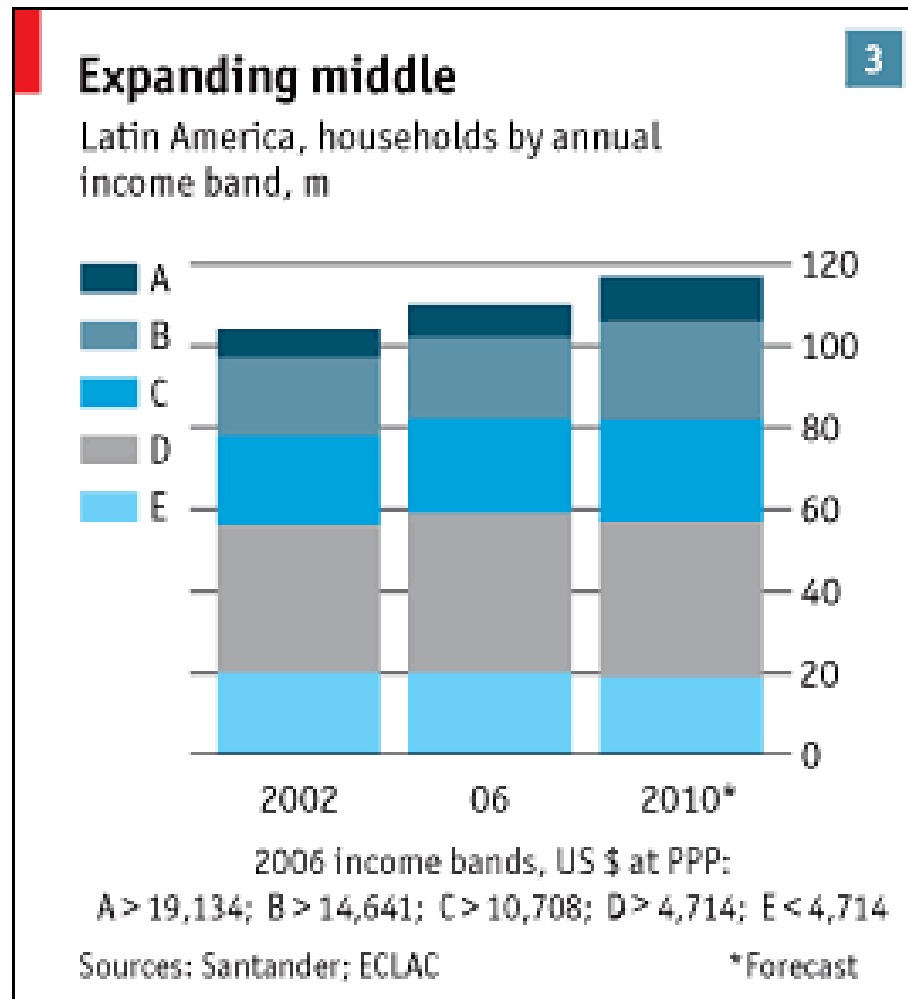


# Income Disparities Are Huge

Country	Per Capita GNI (PPP\$)	Percentage Share of Income or Consumption	
		Lowest 20%	Highest 20%
Brazil	3,000	2.6	62.1
China	1,500	4.7	50.0
India	630	8.9	43.3
Indonesia	1,130	8.4	43.3
Mexico	6,930	4.3	55.1
Russia	3,410	6.1	46.6
Turkey	3,750	5.3	49.7

Source: World Bank Development Indicators 2006

# But Latin American Incomes Are Rising



# So Too Are Incomes in India

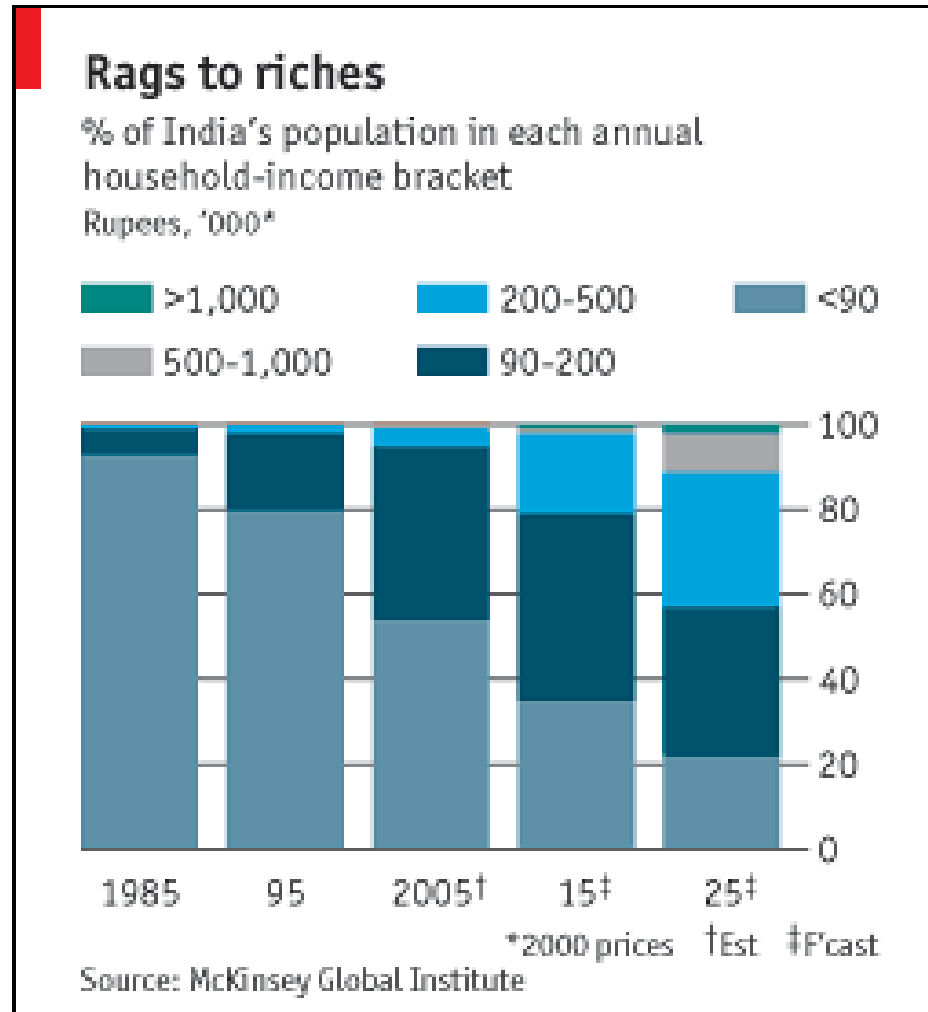


Table 2

**Top Ten Disease Burdens  
of High Income Countries**  
Based on projected DALYs <sup>16</sup>

Source: Report author's calculations  
based on WHO data

	2005	2015	2030
Central nervous system	1	1	1
Cardiovascular diseases	2	3	3
Cancers	3	2	2
Respiratory diseases	4	4	5
Sensory organ diseases	5	5	4
Musculoskeletal diseases	6	6	6
Digestive diseases	7	7	8
Diabetes	8	8	7
Endocrine disorders	9	9	10
Genitourinary diseases	10	10	9

Table 3

**Top Ten Disease Burdens  
of Low Income Countries<sup>37</sup>**

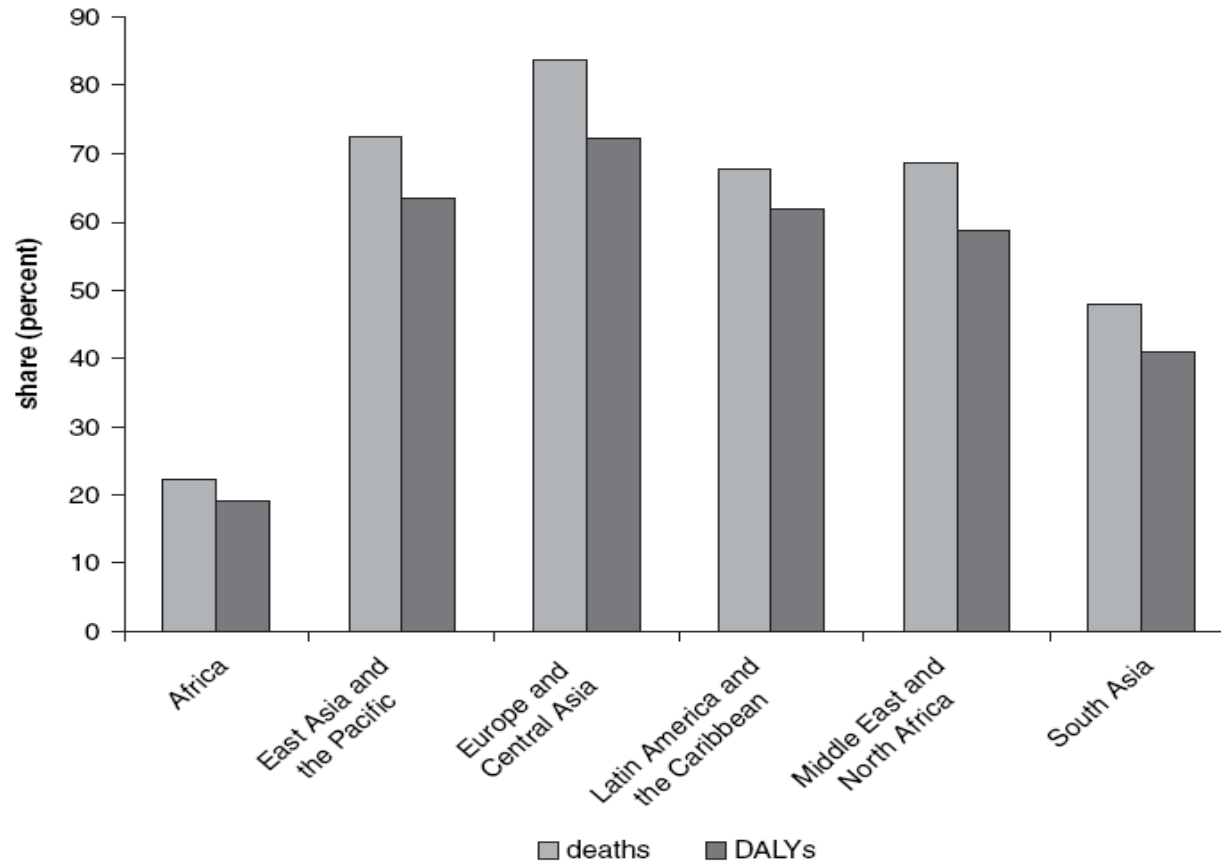
Based on projected DALYs

Source: Report author's calculations  
based on WHO data

	2005	2015	2030
Central nervous system	1	1	2
Respiratory infections	2	8	6
Perinatal conditions	3	4	5
Cardiovascular diseases	4	3	3
HIV/AIDS	5	2	1
Diarrhoeal diseases	6	7	9
Childhood-cluster diseases	7	11	12
Sensory organ diseases	8	6	4
Malaria	9	9	10
Chronic respiratory diseases	10	5	7
Cancers	13	10	8

# Non-communicable Diseases Cause Most Deaths and Disability in Developing World

Figure 1.1. Share of the Disease Burden Attributable to NCDs by World Bank Region, 2002



Source: WHO 2004, annex table 4.

Note: DALYs = disability-adjusted life years.



Stewart Adkins Advisors Ltd.

‘The top selling therapeutic areas of the pharmaceutical industry match the diseases causing death and morbidity in a growing number of emerging economies.’  
Global Health Expert

# Prescription for Long-Term Value

‘Despite all the predictions of growth in emerging markets, we are not yet sure whether it’s hope or reality. The price points are still problematic.’  
Pharma Executive

# Emerging Markets Require New Thinking

- Tiered pricing
- Volume-price trade-offs
- Secondary brands?
- Working with local partners
- Innovative distribution

# Emerging Markets, If Managed Sustainably, Offer Many Advantages

- Rapid access to naïve patient populations for clinical trials
- Lower cost clinical trials
- Huge base of educated scientists (especially India)
- Fast growing economies and huge populations

***Despite the challenges emerging markets represent a huge opportunity. Can Pharma afford NOT to get involved?***