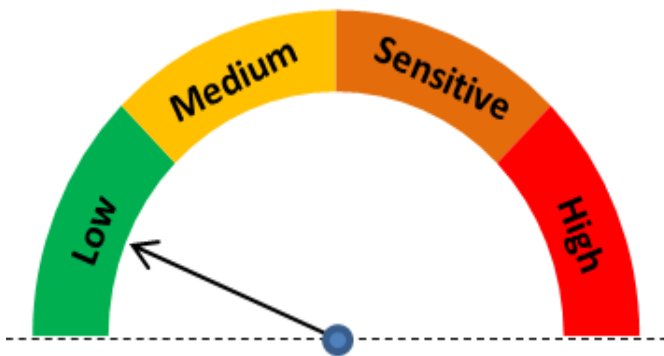




## Sector Risk Rating



## What to Watch?

- Hectic M&A activity as an alternative to internal R&D investments in drugs and a boon for shareholders
- Competition from generic and biosimilar drugs eating away at patented drugs' market shares
- Rise in new drug launches in the U.S. market
- Rising criticism over drug pricing issues by the Democrats in the United States Congress

## Worldwide prescription drug sales expected to rise by +3% in 2016

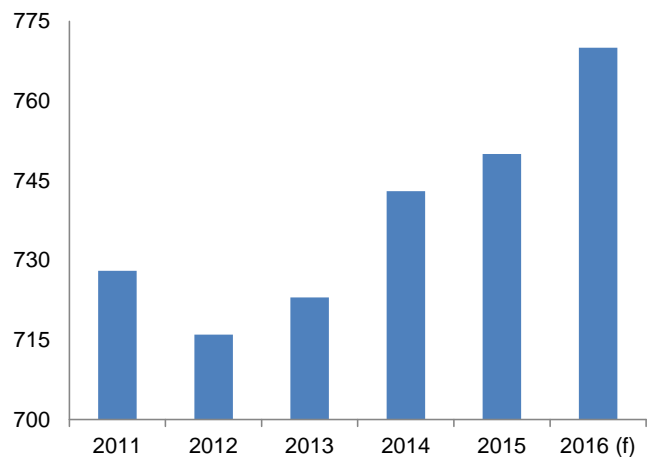
The global prescription drug market is expected to fare better in 2016 than the previous year with a pick-up in growth. Yet the increase will not be as nearly as dramatic as the one seen in healthcare expenditures across the world. Pharma companies must cope with governments' tightening of cost controls and growing criticism of innovative drugs' skyrocketing prices, especially in the United States.

The rise in cheaper generic drugs' sales does help ease the financial burden on public social security schemes. But as long as drug makers know they can cash in on bringing novel drugs to market, the current bullish mood is likely to last.

The political debate on drug prices will rage on in 2016, particularly in the United States which is in the throes of a presidential election campaign. The topic might even become a hurdle for drug makers. Still, this year could be marked by significant clinical advancements in immuno-oncology.

As for mergers and acquisitions, these should remain in the spotlight even if Pfizer's USD160bn bid for Allergan might prove hard to match. Estimated at USD750bn in 2015, we expect the global prescription drug market to grow to USD770bn in 2016.

Worldwide prescription drug sales (USD bn)



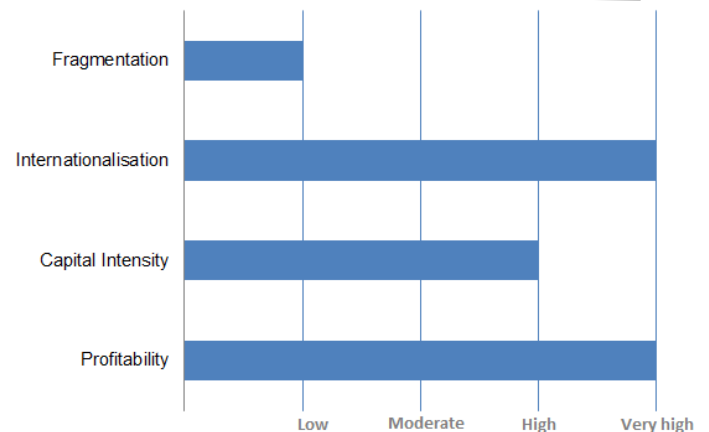
Sources: EvaluatePharma, Euler Hermes estimation

Sector Value:  
**750bn**  
USD

## Key Players

Country	Role	Sector Risk
<b>United States</b>	#1 producer #1 importer	●
<b>Japan</b>	#2 producer	●
<b>Germany</b>	#3 producer	●

## ID Card



## Strengths

- Structural rise in demand boosted by growing middle classes in emerging markets and ageing population
- Spending on drugs is not over-sensitive to economic ups and downs
- High level of profitability boosts huge cash reserves which enable firms to cope with increasing investment requirements

## Weaknesses

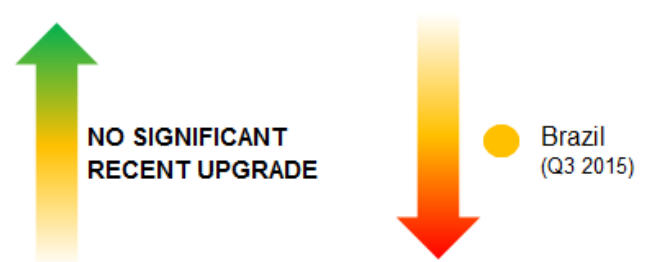
- Downward pressures on (new) drug prices by public health insurance systems
- Drug pricing issues tarnishing the entire pharma industry's reputation especially since Daraprim's price was hiked by (more than) 5,000% in 2015

## Subsectors Insights

**Prescription branded drugs:** Patents' expiration puts sales at risk as competitors can manufacture drugs at lower costs.

**Generic medicines:** Market growth potential stemming from patent expiration of branded drugs. Parallel rise in biosimilar sales corresponds to branded biotechnological drugs going off patent.

## Recent Sector Risk Changes



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