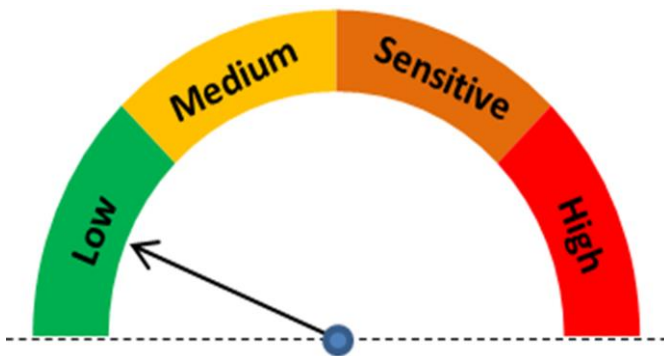




Sector Risk Rating



What to Watch?

- Recurring high level of M&A activity aimed at bolstering company pipelines as an alternative to internal R&D investments
- Competition from generic and biosimilar drugs eating away at patented drugs market shares
- Number of new drug launches in the US market (after an unexpected drop in 2016)
- Growing grievances over drug “price gouging” across the world, especially in the US

Global prescription drug sales rise for seven years

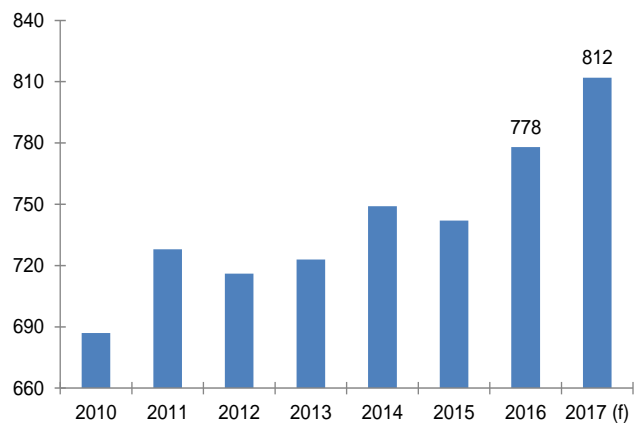
The world prescription drug market should grow a little more in 2017 than in 2016. This is due to the depreciation of the USD against other foreign currencies, especially the yen. Meanwhile, big drug makers have been struggling with governments’ tightening of cost controls and growing criticism about soaring prices of new medicines.

The rise in cheaper generic drugs sales helps ease the financial burden on public social security schemes. But as long as drug makers cash in on their strong “pricing power” of bringing a (really) innovative drug to market, –such as Gilead’s drug Sovaldi two years ago– they will succeed in sustaining pharmaceuticals in their bullish momentum.

As a result, political rhetoric on drug price gouging is likely to go on in 2017, particularly in the US after the latest presidential elections. Still, this year should be marked again by a few clinical advancements in oncology, especially in immunoncology. Besides, mergers and acquisitions should remain in the spotlight, fueled by rumors of ongoing talks between Actelion, Sanofi, and J&J to take over the Swiss biotechnology company.

Estimated at USD780Bn in 2016, we expect the global prescription drug market to rise to USD810bn in 2017.

Worldwide prescription drug sales
(Billions of USD)



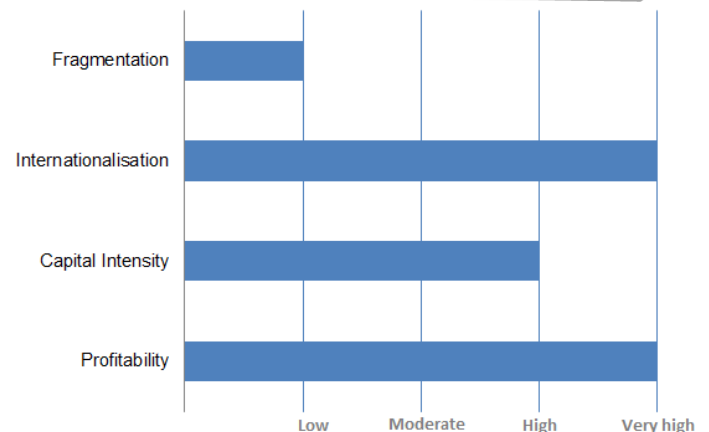
Sources: Euler Hermes, Evaluate Pharma’s forecast

Sector Value:
780bn
USD

Key Players

Country	Role	Sector Risk
United States	#1 producer #1 importer	●
Japan	#3 producer	●
China	#2 producer	●

ID Card



Strengths

- Structural rise in demand boosted by growing middle classes in emerging markets and aging population
- Drugs spending not that sensitive to economic ups and downs
- High level of profitability leading to war chests (of cash) enabling drug makers to cope with soaring costs of R&D

Weaknesses

- Downward pressures on new drug prices by public health insurance systems
- Drug pricing issues tarnishing the entire pharma industry's reputation since the Daraprim's drug price in the US rose by 5,000% last year
- Strict healthcare laws and regulations

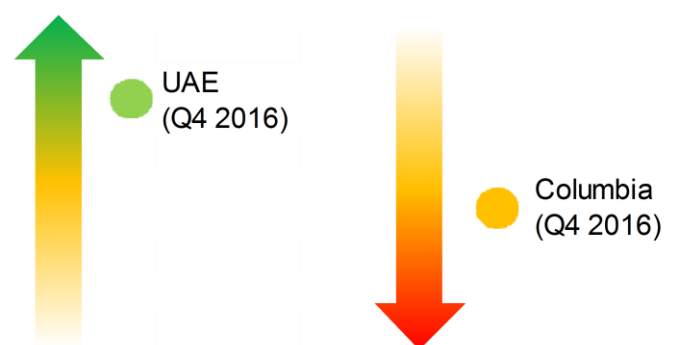
Subsectors Insights

Prescription branded drugs: Patents expiration put a part of their sales at risk as competitors can manufacture them at a lower cost.

Generics: Market growth potential stemming from patent expiries of branded drugs. Parallel rise in biosimilar sales corresponding to branded biotechnological drugs going off patent.

OTC: Non-prescription drugs whose growth rate has come to a standstill recently.

Recent Sector Risk Changes



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