Press Release

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The global pharmaceutical industry is in better health than its companies
Sector analysis by credit insurer Euler Hermes

- In contrast with the global pharmaceutical market, which should grow at a compound annual rate of approximately 4% until 2015, the big pharma groups are seeing an erosion of their once very high profitability.
- The margins of big European pharma groups are expected to be 5 points higher than those of their US counterparts in 2012.
- Pharmaceutical groups are seeking to adapt to the new market environment, marked by soaring demand for generics and growing opportunities in emerging regions. Generic manufacturers are also benefiting from the mass expiry of patents on blockbuster drugs.

Paris, 29 March, 2012 – The global pharmaceutical market continues to boast reassuring fundamentals. Estimated to be worth $880 billion in 2011, this market has consistently generated positive annual growth in recent years.

A market with bright days ahead of it

“Demand for drugs in all countries in the world is set to remain strong in 2012, despite the slowdown in world growth. However, it is undergoing a major transformation”, explains **Ludovic Subran, Chief Economist of Euler Hermes Group**. The structural dynamism of the pharmaceutical sector will continue to be determined by trends specific to this sector, notably the convergence of the wealth effect, the demographic effect and the growing share of public healthcare financing.

As a result, this robust demand is gradually shifting towards the growth opportunities represented by emerging regions and generic drugs. Between 2009 and 2015, demand for generic drugs is set to be three times greater than that in the overall pharmaceutical market, driven by the growing weight of emerging markets compared with historical markets in developed countries, which are preoccupied with the size of deficits in some public healthcare insurance systems. Moreover, the reservoir of growth in emerging markets is, at present, only a medium-term Eldorado for big global pharma groups.

The gulf between spending power in emerging countries and mature countries is acting as a brake on this growth channel: “In 2011, per capita drug consumption stood at $1,100 in the US, compared with just $15 in India and $40 in China”, points out **Marc Livinec, Sector Advisor at Euler Hermes Group.**

Big pharma groups are seeking to adapt

“The concerns of big pharma groups are partly related to flagging R&D. This trend is explained by the fourfold increase in the cost price of a new drug over the past 15 years and much more rigorous approval criteria by healthcare agencies”, says **Marc Livinec**.

Big pharma groups are also faced with the development of cheaper generic alternatives, fuelled by the mass expiry of patents on many of their blockbuster drugs. The alternative of focusing on other families of drugs, such as vaccines or self-medication products, is no panacea for big pharma groups given their modest contribution and growth rates.

Growing profitability disparities

The golden age of very high profitability for big pharma groups appears to be over. Although average operating margins should remain high at 20.5% in 2012, this represents a drop of 2.5 points from 2011 and 4 points from 2006.

European pharma groups, whose margins are set to exceed those of their US counterparts by 5 points in 2012 (operating margins are forecast to average 18% in the US in 2012, compared with 22.5% in Europe), are proving more resilient. The US giants are more affected by patent expiries and the repercussions of strong industry concentration. Of the 105,000 jobs axed in the pharmaceutical industry over the period 2009-2011, three-quarters were in the US. In contrast, US biotechnology companies, which are better financed than their European peers, are in fine health.

Generic manufacturers are in excellent financial health, with margins forecast to grow by 6% in 2012. “Weakened by the patent cliff, approval difficulties and their positioning in slower-growing mature markets, big pharma groups, which still generate substantial cash flow, will probably end up losing market share to generic manufacturers, unless they simply acquire them”, concludes **Ludovic Subran.**

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