IFPW FOCUS
A Bi-Weekly Pharmaceutical Industry Newsletter
Vol 32 | No. 10
May 9, 2024

Pharma Industry's ROI for Drug R&D Saw Rebound in 2023

(Source: An article by James Waldron for Fierce Biotech)

In recent years, Deloitte's annual analysis of Big Pharma has seen a depressing trend—ever-increasing costs for developing drugs over the past decade as the return on investment (ROI) sinks.

A brief uptick in the internal rate of return (IRR) during the COVID-19 pandemic appeared to be an anomaly, with the long-term trend reasserting itself in 2022 to produce a IRR of just 1.2%, the lowest in the 14 years Deloitte has been monitoring the scene.

But with 2023 figures now in, they suggest the picture isn't as bleak as feared. In fact, the IRR jumped up to a healthy 4.1% last year, according to the its 2023 report released last month. The authors branded this a "welcome sign of improvement."

Deloitte's report assesses the top 20 pharmaceutical companies, according to 2020 R&D spend. They noted that total R&D spend across these major players combined rose 4.5% from US$139.2 billion in 2022 to US$145.5 billion in 2023.

However, the average cost to take a drug from the discovery stage to commercial launch remained flat, sitting at US$2.28 billion for the second year in a row. This reflected "an expanded range of assets and line extensions," authors of the report explained.

Peak sales per pipeline asset also appear to have peaked. Sale forecasts per drug fell from US$389 million in 2022 to US$363 million in 2023, continuing a decline from the COVID-driven high point of US$500 million in 2021.

On the upside, total revenue for these companies "continues to trend upwards without interruption," according to the report, with R&D sales for these 20 big pharmas jumping 9.6%. This "reflects the successful approval of high value assets which we have observed year-on-year," the authors said.

Biopharma companies are also now "increasingly using technology-enabled approaches that use R&D data to inform their decision making," the authors observed, which means the amount of data they're producing from trials is "growing exponentially."

To take advantage of this, the authors' solution is the oft-cited key for solving the Big Pharma productivity puzzle: artificial intelligence.

"Advances in AI, including generative AI, can enable companies to demystify complex disease biology, expedite drug discovery, cut study timelines, revitalize the clinical trial experience and improve regulatory success," the authors noted in the report's foreword.

To download the report please visit https://www2.deloitte.com/us/en/pages/life-sciences-and-health-care/articles/measuring-return-from-pharmaceutical-innovation.html

In Brief...

- **Walgreens** is expanding its specialty pharmacy services and investing in its capabilities with the introduction of **Walgreens Specialty Pharmacy**. The goal is to grow its core pharmacy business to improve patient outcomes and provide greater value to both payers and partners. The company said that under the new business, it will offer *Gene and Cell Services Pharmacy and Innovation Center*, a dedicated 18,000 sq.ft. facility in Pittsburgh, PA, with services and capabilities for these emerging therapies, that will include innovative solutions for managing the complexities of the supply chain, logistics and financing, as well as clinical and social needs.
- **McKesson** reported Q4 revenues of US$76.4 billion, an increase of 11% from a year ago. Revenue increases were primarily driven by growth in the U.S. Pharmaceutical segment, resulting from increased prescription volumes, including higher volumes from specialty products, retail national account customers, and GLP-1 medications. For the full year, McKesson returned US$3.3 billion of cash to shareholders, which included US$3 billion of common stock repurchases and $$314 million of dividend payments. During the fiscal year, McKesson generated cash from operations of US$4.3 billion, and invested US$687 million in capital expenditures, resulting in Free Cash Flow of US$3.6 billion.
- **Sigma Healthcare** announced their Q4 and FY2023 financial results, with net sales of AU$3.7 billion (US$2.4 billion), up 6.2% from FY2022. Of particularly positive note was a reduction of net debt from AU$149 million (US$97.8 million) to AU$67 million (US$44 million) year-over-year. The company noted that the business simplification strategy is progressing well, the ERP system is now stabilized and now focused on optimization, infrastructure metrics are now at a better level

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U.S. Healthcare Becoming More Personalized and Consumer-focused

(Source: An article by Sandra Levy for Drug Store News)

A new report titled, *Market Navigator: U.S. Healthcare—Evolving To Become More Personalized and Consumer-Focused* by Coresight Research noted that according to the Centers for Medicare and Medicaid Services, the total personal healthcare expenditure for the U.S. market will see a 5.3% compound annual growth rate for 2018–2028, The focus will be on key trends that could impact the market's future, including the potential for future pandemics, emerging advancements in healthcare technologies, and the influence of an aging population.

The report also revealed that the U.S. healthcare market has remained very resilient in the post-pandemic years, with consumers spending a significant amount of their overall expenses on healthcare products. This demand is creating opportunities for many large and small retailers across the healthcare market. As of 2023, Walgreens Boots Alliance, CVS Health, and UnitedHealth Group (via its OptumRx segment) rank as the top retailers in the U.S. healthcare market.

Following the pandemic, as consumers began taking their health more seriously, many healthcare brands began to focus on developing innovative health products, from supplements to pharmaceuticals, to help consumers achieve their health goals and enhance their wellness. As of 2023, UnitedHealth Group, CVS Health and McKesson Corporation are the brand owners leading U.S. healthcare.

According to a survey of 400 U.S. consumers conducted by Coresight Research, CVS, Walgreens Boots Alliance and Walmart emerged as the most popular destinations among U.S. shoppers who shopped at drugstores or pharmacies over the three months prior to the survey. Some factors, such as still high inflation, remain challenges for the healthcare and pharmacy market through 2024. Nevertheless, in the medium and long term, a variety of other factors, including better healthcare outcomes for patients and an increase in weight-loss drug prescriptions, will positively influence the sector.

Additionally, Coresight noted that the key themes that will help brands and retailers operating in the U.S. healthcare market respond to short-term consumer needs while securing longer-term success, including: the increase in chronic diseases in the U.S.; the aging population in the U.S.; growing healthcare expenses; an increased focus on preventative healthcare; the opioid epidemic; increased convenience; accessibility and inclusion; sustainability; and, the food-as-medicine trend.

While spending on consumer health products in the U.S. remains high (compared to previous years), it is expected that demand for health products will increase even further in 2024 and going forward. The increased demand will be driven primarily by prescription and over-the-counter medications, supplements and medical devices. Also coming into play, but to a lesser extent will be fitness equipment, wellness wearables and skincare products. This is a strong signal that consumers are prioritizing everyday health products and incorporating them into their daily routines.

The U.S. healthcare industry is going through a profound transformation, one characterized by a shift toward consumer-centricity, personalized healthcare and technology-enabled solutions. Pharmacies and primary care centers are emerging as preferred destinations for consumers' concerns as retailers and healthcare providers leverage emerging technologies to offer personalized services.

In Brief (cont.)

than before ERP, and the Hobart distribution center has opened and the Truganina distribution center is completed, along with an overall positive outlook going forward.

- **Cardinal Health** reported third quarter fiscal year 2024 revenues of US$54.9 billion, an increase of 9% from the third quarter of fiscal year 2023. Third quarter GAAP operating earnings were US$367 million. "In Q3, we delivered broad-based growth, including solid profit growth in Pharmaceutical and Specialty Solutions, on top of an exceptionally strong quarter from a year ago," said *Jason Hollar*, Cardinal's CEO.
- A New Jersey federal judged dismissed lawsuits by **Bristol Myers Squibb** and **Johnson & Johnson (J&J)**, which questioned the constitutionality of the U.S. government requiring drugmakers to negotiate with Medicare on product pricing. The dismissal comes two months after a Delaware federal court rejected a similar lawsuit by AstraZeneca, but the company has filed a challenge of the decision in the U.S. Court of Appeals. J&J will appeal the New Jersey Court decision.
- **Pfizer** reported revenue of US$14.9 billion for the first quarter of 2024 with a 20% decrease in sales, However, it was the third straight quarter that Pfizer saw a sequential increase in revenue—from US$12.7 billion in the Q2 of 2023 to US$13.2 billion in the third quarter and US$14.2 billion in the fourth quarter. Separately, a three-year collaboration between Pfizer and the **Research Center for Molecular Medicine of the Austrian Academy of Sciences (CeMM)** has resulted in a new AI-driven drug discovery method which may result in faster and easier identification of small molecules with therapeutic potential. CeMM has created and scaled an AI and machine learning platform that measures how hundreds of small molecules bind to thousands of different human proteins, generating a catalog that can be used as a starting point for new drug development. The models used and all data from them are available for free to other researches in the form of a web application from CeMM.
- **CVS Health** today announced operating results for the three months ended March 31, 2024, with first quarter revenues of US$88.4 billion -- an increase of 3.7% compared to the prior year, and reflecting strong growth in the health care benefits and pharmacy & consumer wellness segments. The growth was partially offset by a decline in the health services segment, the company said.
- **Walmart** announced today that it is closing 51 health centers across five states. The company noted that back in 2019, it launched *Walmart Health Centers*, and that during its five-year journey, it made meaningful impacts with patients while continuing to learn, pivot and evolve. "This is a difficult decision, and like others, the challenging reimbursement environment and escalating operating costs create a lack of profitability that make the care business unsustainable for us at this time," the company said.

(Sources: Company Press Releases, Drug Store News, FiercePharma, FierceBiotech, PharmaVoice, and Reuters)