

THE TOLL OF TERROR

The industry is in a long-term upward trend and only under the scenario where the U.S. is in a state of siege would that upward trend be disrupted.

Dr. Ken LaPensee

2001 was never going to be a stellar year for global economies, but until September 11, 2001, many in the business world predicted a quick recovery. Those hopes have faded somewhat as consumer spending, rising unemployment, and business uncertainty plague some sectors. The bio-pharmaceutical industry will emerge relatively unscathed compared with other industrial sectors, however, there will be a noteworthy impact on key budget and policy initiatives, according to Dr. Ken LaPensee, senior VP, Cambridge Pharma Consultancy. Cambridge Pharma Consultancy, with corporate offices in New York and Cam-

bridge, England, is a leading international firm specializing in the pharmaceutical and healthcare industries.

Dr. LaPensee offers analysis on the impact that the events of Sept. 11 will have on the industry, assuming the country isn't faced with more attacks on the scale of those that brought down the twin towers of the World Trade Center and destroyed part of the Pentagon. How the war in Afghanistan and fears of further attacks affect the economy in general and the pharmaceutical industry in particular, cannot be certain. However, Dr. LaPensee notes that while the economic impacts



DR. KEN LAPENSEE

Cambridge Pharma reports ...

- ▶ Healthcare expenditure will tighten in the medium-term.
- ▶ Major health policy initiatives will be delayed, particularly in the U.S. Medicare pharmacy benefit reform will be postponed until 2003 at the earliest.
- ▶ Plans to contain escalating pharmaceutical costs will be accelerated.
- ▶ Perceptions of an "over-profitable industry" may find broader public resonance.
- ▶ Support for the industry's position on global intellectual property and global pricing will slip down the political agenda.
- ▶ Issues that divide Congress, or risk destabilizing the healthcare financing system, will lose priority, among these will be the Patients' Bill of Rights.
- ▶ The funding window for biotech companies will tighten further and may close for many companies during the next six months.
- ▶ Traditionally a safe haven in recessionary economies, investors will be highly selective about which pharmaceutical stocks to support.

have been calculated in terms of the immediate fallout from September 11, nothing that has happened so far, even the slew of anthrax attacks, is likely to change the scenario.

"If terrorists don't achieve a spectacular victory over our home defenses, and if the war goes basically toward a resolution, then all the conclusions that we came to hold," Dr. LaPensee says. "Repeated shocks to the economy on the scale of September 11, however, would lead to a serious economic retraction."

General Economic Impact

In general terms, according to Dr. LaPensee and other analysts in the Cambridge Pharma

group, no major country will be immune from the effects of the economic slowdown.

The most immediate impact of the inevitable U.S. slowdown will be felt by countries that have high levels of exports to the U.S. — Canada and Mexico, both with more than 82% of their exports to the U.S., and Latin America with 60% of exports to the U.S. Japan, meanwhile, which has been struggling with a prolonged economic malaise, will recover more slowly, and countries such as Brazil, Argentina, and Turkey, which are highly dependent on capital inflows may suffer as investors become increasingly averse to risk.

Dr. LaPensee says, "Those countries whose economies are most linked to ours are going to feel the effects first and then there will a ripple down effect."

Political Environment

The bio-pharmaceutical industry will operate in a state of heightened political awareness for some time to come, as consumers and governments become increasingly intolerant of politically insensitive actions by pharmaceutical companies. For example, any perceptions of an "overly profitable industry" may find broader public resonance, and companies that take any action that is interpreted as profiteering from the tragic events will face a significant backlash.

"Having a big stockholder announcement about how profitable a company is as a result of a new product line is really going to be perceived as a negative," Dr. LaPensee says, adding that this will be particularly acute for companies that come out with products to treat such illnesses as depression. "These companies have to be very careful about the way they word their announcements, to show themselves as helping to solve the nation's problems rather than profiteering off them. There's a social dimension to what the industry does and it has to come to grips with this."

Moreover, with priorities focused on maintaining a fragile anti-terrorism coalition, the pharma industry can expect to have some of its concerns and goals, including global intellectual property and global pricing, slip down the political agenda. Companies will have to tread carefully and work to build support among governments in low-income and middle-income nations to avoid an erosion of intellectual property rights and pricing levels.

In the medium- to long-term, multinational companies will need to continue to evaluate their interaction with local cultures, and will need to be sensitive in the way they pursue free-market philosophies around the globe.

"One of the reasons why we're so envied, and in some cases even hated, is because we

engender the perception that we want a world where only those who can afford the ticket can get on the bus," Dr. LaPensee says. "The pharmaceutical industry can engage in donation programs that alleviate that perception without hurting themselves economically."

Healthcare Policies

Until the September 11 attacks, healthcare was to be a central issue in Congress, with debate centered around Medicare reform and the Patients' Bill of Rights. But in the wake of the attacks, issues such as Medicare reform will be postponed until 2003 at the earliest.

But such a scenario would be hurtful to the pharmaceutical industry, Dr. LaPensee warns. "Medicare pharmacy benefit is really important to the industry. Coverage for senior citizens who are trying to choose between food and medicine would take a huge public-relations burden off the industry."

According to the consultancy, even before the terror attacks, the economic forecasts for most healthcare budgets were over-optimistic.

The pharmaceutical industry has been affected in a variety of ways by the unprecedented events of **September 11th**. While the industry will emerge relatively unscathed compared with other industrial sectors, there will be a noteworthy impact on key budget and policy initiatives.

The 2002 expenditure budgets are now largely locked-in and based on pre-September 11 forecasts, but the deficits resulting from these expenditures will need to be clawed back in 2003 and beyond. Now, in a new era of international tension, the "peace dividend" of lower military spending used to finance accelerated social programs may erode significantly. Plans to contain escalating pharmaceutical costs will be accelerated.

There is unlikely to be much decline in demand for drugs and therapies. Some products, such as those that treat depression and anxiety, are expected to show increased demand, particularly in the U.S. Demand for drugs to treat obesity and erectile dysfunction, however, may decline, especially in countries where such products are not reimbursed.

"Countries are going to be spending money on bread-and-butter drugs and on mental-health treatments, especially in the U.S.," Dr. LaPensee says. "Governments are going to be very careful on what they spend their money on. They're not going to be too keen on funding life-style drugs."

Should events escalate, governments and other institutions will look to the pharmaceutical industry to supply medicines for acute

trauma and to manage epidemics in regions affected by armed conflict and refugee crises.

Companies can expect to experience more pressure to lower prices, particularly in Europe as governments scrutinize expenditures and become less tolerant of spending that they believe can be cut without major healthcare or political impact. Companies planning high-profile launches in the next 24 months will need to muster political and public support for their pricing policies, and "blockbuster" products already on the market will likely be targeted for price cuts in some countries.

Equity Markets

Traditionally a safe haven in recessionary economies, investors will remain selective about which pharmaceutical stocks to support in a turbulent equity market. While some pharmaceutical stocks will be viewed as relatively safe havens going forward, investors will become increasingly wary of stocks that carry poorly managed business risk. However, bargain buys for big pharma will be fewer than in

previous downturns as there will remain intense competition for the best late-stage biotech opportunities.

Among biotech companies, the funding window will tighten further and may close for many companies in the next six months.

"I don't think biotech funding will dry up under the scenario we expect, but we won't be seeing any monumental successes," Dr. LaPensee says.

Going Forward

In the medium term, the industry will likely continue to pursue business developments that have been central over the past few years, Dr. LaPensee says.

"The trends that we saw before September 11 are going to be applicable afterwards," he says. "The fundamentals of the industry — the mergers, the pipelines, new drug development — will continue. The industry is in a long-term upward trend and only under the scenario where the U.S. is in a state of siege would that upward trend be disrupted." ♦

PharmaVoice welcomes comments about this article. E-mail us at feedback@pharmalinx.com.