

DC gives biopharma investors a rosy second-half outlook



[Jonathan Gardner](#)

The biopharma sector's 2017 fortunes have seesawed on three macro points of US policy – pricing, health care coverage, and tax reform. Midsummer events have restored confidence in the longer-term investment picture, giving shares one of their best weeks of the year so far.

A draft “executive order” on drug pricing that emerged earlier this week appeared benign to the sector, centring as it did on regulatory relief with a nod toward increased competition and value-based pricing. Combined with improving odds of an Obamacare-repeal bill as the Senate Republican leadership releases a draft proposal today, with savings likely directed toward a pharma-friendly tax reform package, a better investment scenario seems to have emerged for the rest of 2017.

Since word of the draft drug pricing order leaked out Monday from the White House's working group, the Nasdaq biotechnology index has risen 7% and the S&P pharma index 4%.

Price controls? What price controls?

Instead of competitive bidding, as spoken of by President Donald Trump, drug costs would be brought down through streamlined regulations, increasing competition by lowering R&D costs and expanding generic entry, and value-based pricing ([Vantage point - Value-based payment finds a friend in a high place, April 10, 2017](#)).

But competition would not necessarily extend beyond US borders: the working group proposed greater patent protection in overseas markets, a long-time goal of the sector. And the group would also make it easier for US health programmes to absorb the costs of high-priced drugs by proposing that Medicare and Medicaid offer 10-year US Treasury bonds. How borrowing to fund drug spending will bring prices under control is anybody's guess.

The uncertainty about what would emerge from the White House after Mr Trump's sometimes contradictory statements has been a weight on the sector this year. While the signals from the administration have looked better over time, the release of the draft has been the strongest sign yet that there will be no aggressive price controls – indeed, it looked like a calculated leak designed to measure industry sentiment.

Repeal and replace

Meanwhile Mr Trump's Senate Republican allies, who are working on refinements to legislation to replace the Affordable Care Act that has already been passed by the House of Representatives, have at last released their product. It does not measurably change the topline view of the congressional approach – individuals would no longer face a penalty for failing to have insurance coverage, and spending for the Medicaid programme for low-income and disabled people would be rolled back over time, limiting enrolment.

Another proposal would see states set the rules on minimum benefits included in health insurance policies, which could lead to plans with less generous, or even nonexistent, drug coverage.

It will not be exactly clear what effect the Senate's bill will have on health insurance coverage until the Congressional Budget Office has analysed it. But because it only refines the House plan, the increase in uninsured people will probably look similar – that number was set to reach 23 million in 2026 under the House-passed legislation ([Path to tax reform emerges from Obamacare repeal, May 25, 2017](#)).

Most of that will come from declines in Medicaid coverage, a trend that should worry the sector given that Medicaid drug spending spiked 42% between the start of coverage expansions in 2013 and 2015. It accounted for \$9.3bn of the \$59.5bn in increased US drug spending in that period.

Of greater interest to pharma investors seem to be the savings achieved from the health insurance bill. The \$119bn saved is intended to go toward corporate tax relief – cutting the corporate rate to 15% and ushering in a tax holiday to repatriate overseas cash, among other proposals ([How low can you go? US pharma already shoulders light tax burden, April 27, 2017](#)).

Tax cuts in the near term appear to be something pharma investors desire more than paying customers in 10 years. Since release of the Senate health care bill brings tax reform one step closer, it can only be seen as good news to them – both US pharma indices are up another 1% in early trading today.

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