Evaluate Vantage

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With market shares shrinking, big pharma will keep buying

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Pfizer and Merck & Co were peppered with questions about their deal-making intentions on first-quarter earnings calls this week. Amid a sluggish period for takeovers, and with several big names under pressure to find new growth, investors are keen to know whether 2018 will yield another mega M&A move.

Executives were predictably vague in their answers, but a look at market share forecasts for the sector's giants helps illustrate why these companies will keep buying. Almost all are expected to see their share of the global drug market shrink over the next six years, new *EvaluatePharma* data show, with the top 20 drugmakers forecast to cede a huge 15% of the market to smaller players by 2024 (see analysis below).

The data below are based on *EvaluatePharma's* consensus of sellside analysts' forecasts, which has recently been extended out to 2024, adding another two years to the view of the market.

Growing yet shrinking - are the world's biggest drug companies losing their grip on the market?

	Prescription and OTC sales ($bn)			Market share		Market rank	
	2017	2024	CAGR 2017-24	2017	2024	2017	2024
Pfizer	47.6	54.0	+2%	5.8%	4.3%	1	1
Novartis	41.9	53.2	+3%	5.1%	4.3%	2	2
Sanofi	39.5	51.8	+4%	4.8%	4.1%	4	3
Roche	41.7	50.6	+3%	5.1%	4.1%	3	4
Johnson & Johnson	36.8	50.0	+4%	4.5%	4.0%	5	5
Glaxosmithkline	33.8	45.8	+4%	4.1%	3.7%	7	6
Merck & Co	35.4	38.0	+1%	4.3%	3.0%	6	7
AbbVie	27.7	37.2	+4%	3.4%	3.0%	8	8
Astrazeneca	19.8	31.7	+7%	2.4%	2.5%	12	9
Bristol-Myers Squibb	19.3	28.7	+6%	2.3%	2.3%	14	10
Sum of top 20 drug developers	**505.1**	**652.8**	**+4%**	**61.2%**	**52.2%**	**-**	**-**
Rest of market	**319.7**	**596.6**	**+9%**	**38.8%**	**47.8%**	**-**	**-**

Source: EvaluatePharma.

In terms of rankings, analysts see little change among the top five pharma companies over the next six years. Pfizer is expected to remain in pole position until 2024, as it stands today, though should it manage to sell its consumer health arm around $3.5bn would be removed from its top line.

Presumably any windfall would be used as an acquisition fund, though its chief executive, Ian Read, suggested yesterday that the company was leaning towards small-scale deal-making. This is something of an about turn – a few months ago Mr Read talked up Pfizer's prowess as a major consolidator.

However, the analysis above suggests that this new strategy makes sense, as much faster growth is coming from smaller firms. One caveat here is the sellside's tendency to attach very optimistic sales forecasts to smaller groups' products, probably flattering the growth prospects of this cohort. And big pharma pipelines are often overlooked or not covered in depth by equity analysts, in favour of focusing on assets that are on or very close to the market.

Even taking this into account, the analysis above does support a view held by many investors and pharma executives that greater innovation can be found among small drug developers, which fall well outside of the ranking above.

It is perhaps no coincidence that Merck's chief executive talked down the prospect of large-scale deal-making yesterday, echoing earlier comments from management teams at Novartis, Johnson & Johnson and others throughout the first-quarter earnings season.

Of course no executive will advertise the fact that their company is shopping around for a megamerger. And Takeda's move on Shire – companies ranked 18th and 19th on sales last year – shows that when viewed through certain prisms huge deals can be found to have value.

The nine percentage points of market share loss that this analysis suggests represents a substantial erosion of big pharma's landmass in the coming years. But it seems unlikely to come to pass – at least not to this extent. Big pharma is built on deals, and the picture is bound to shift.

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