

Trump win brings uncertainty to pharma



[Jonathan Gardner](#)

With the election of Donald Trump as US president, and his allies in the Republican Party in control of Congress, the way has been cleared to repeal the law that brought universal healthcare for the first time only in 2010.

The loss of a law that has delivered coverage for 20 million Americans, with no comprehensive plan to replace it, must raise concerns throughout biopharma as it significantly reduces the number of people who can afford new drugs. But the expectation that drug pricing will fade as an issue – notwithstanding Mr Trump's support for allowing importing of less expensive drugs sold overseas – has driven early gains from biopharma shares today.

The Nasdaq biotech index rose 7% and S&P pharmaceuticals was up 6%, while broader US indices were flat.

Today's trading provided an indicator of what potentially lies ahead for biopharma should health-insurance coverage guarantees change. Shares in for-profit hospital companies plummeted today – hardest hit were Tenet Healthcare and Community Health Systems with 27% losses.

As Mr Trump's transition team is assembled and policy specifics emerge, the volatility of today's markets will no doubt subside. But for now the biopharma sphere, along with the US and the world, is looking at a blank parchment and wondering what lies ahead.

Pricing and taxes

The pharma world has to be at least feeling a sense of security that Mr Trump's one-time [promise](#) to allow Medicare to negotiate drug prices directly is not part of the formal [plan](#) published by the campaign. Belief that pharma pricing risk had been reduced was further confirmed by the defeat of the closely fought Proposition 61 in California, which would have set state agencies' drug prices at the same level as that paid by the federal Department of Veterans Affairs health system.

Meanwhile, a plan to allow corporations to repatriate overseas cash at 10% – rather than the current 35% rate – will come as some relief ([Vantage point – Pfizer bid ignites tax debate but fixes are distant](#), May 8, 2014). The last time a lower-tax repatriation “holiday” was allowed was 2004. ISI Evercore analyst John Scotti estimates that the nine big pharma and biotech companies he covers hold \$120bn in overseas cash.

In addition, Mr Trump's tax proposal would drop corporate rates to 15%, below the rate of 31 of the 34 Organisation for Economic Co-operation and Development countries and equal with Canada. Combined with the repatriation proposal, the tax cut will provide less of an incentive for pharma companies to leave cash in the hands of subsidiaries domiciled overseas.

How big pharma and biotech companies use these proceeds, particularly the repatriated cash, is anybody's guess. Investors will obviously be keen to benefit in the form of dividends or share buybacks, but it could provide sufficient proceeds to spark a new round of biopharma M&A.

These are ways in which big pharma balance sheets could see some benefit under Mr Trump's policy initiatives – prices might not be under as much downward pressure from government programmes as might have happened under a government run by his Democratic rival, Hillary Clinton, while earnings could see a bump with lower taxes.

As for Mr Trump's idea to allow drug “reimportation”, this is a proposal that has been discussed for some time without ever being implemented, mostly as it has had difficulty passing Congress in the past thanks to pharma sector opposition.

If this did come in, new safety controls would likely need to be created, and pharma companies could prevent it from being an effective approach to reducing drug prices by limiting exports to countries known to be supplying pharmaceuticals back to the US.

What about coverage?

Taking these three factors into account, it is clear that there are ways in which the sector could benefit in

coming years. The great unknown is what lies after repeal of the Affordable Care Act (ACA). Mr Trump's healthcare plan consists of proposals that Republicans have backed for years without getting much traction.

These are making health insurance costs tax deductible for individuals; medical savings accounts, which allow individuals to set aside money tax free to pay for everyday health costs backed up by high-deductible catastrophic coverage; replacing state regulation of individual health insurance policies with federal regulation, which aims to make such policies cheaper; and a plan to give states more control of their Medicaid programmes for the poor by paying the federal share in the form of a "block grant".

Health insurance premiums and Medicaid expansions under the ACA have helped 20 million people obtain health insurance coverage, and it is not at all clear what assistance will be offered should it be repealed. ISI Evercore analyst Terry Haines said he did not expect coverage to revert to pre-ACA levels, suggesting that all or parts of House Speaker Paul Ryan's [replacement plan](#) will pass. This includes such concepts as an advance tax credit for purchasing individual health insurance and privately run health insurance purchasing exchanges that will augment the ACA's public exchanges.

Nevertheless, the uncertainty has some obvious implications for biopharma's topline sales. Wise executives might want to listen for greater detail about an ACA replacement before celebrating wins on pricing and taxes.

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