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# NEW SCIENCE – THE NEW ECONOMICS IN BIOPHARMA CONVERSATION

## VIDEO TRANSCRIPT

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Globally, growing populations, changing demographics, and advancements in personalized, complex medicines are challenging health systems' ability to afford the care that populations require. The acute impact of COVID-19 has only amplified this challenge. Together, these forces represent a new economic reality – one that has laid plain the long-term unsustainability of today's model for the biopharma industry and offers a tremendous opportunity for change and advancement. This is an opportunity not only to significantly improve patient access and system affordability, but also frankly one that biopharma can't afford to miss.

Even before the pandemic, industry leaders acknowledged the challenges of today's market. When we surveyed 40 biopharma executives, we found that they expect margins to decline over six percent on average in the next five years, and that's in nearly every therapeutic area—even in traditional growth categories like oncology. That same research demonstrated an expected 1-2 percent decline in Net Price in the US over the next five years, which is far below the historical 4.3 percent growth.

This profitability challenge isn't just the result of increasingly competitive markets. Our global healthcare systems are struggling to afford the treatments that populations need--even when they're cost effective and have the potential to transform lives.

Let's put a finer point on indicators of that challenge:

First, across developed markets there's a misalignment between projected health system capacity for prescription drugs and analyst revenue projections for biopharma over the same period of time—and that gap is estimated to be nearly $300 billion dollars by 2028. For patients, the average insurance premium for families has increased 22 percent over the last five years and 55 percent over the last ten years. That's five times the rate of average wage growth.

Out of pocket costs also continue to grow for patients, and now nearly 30 percent say they are not taking their medications as prescribed due to cost. For payers, the pressure to control costs has meant a rise in economically driven utilization management, which causes significant friction between those focused on managing populations, and patients and doctors who are focused on what's best for that individual.

While many of these pressures are not new, in both the public sector and the private market, we see indicators of systemic change on the horizon.

In the US, both parties have proposed legislation to address patient- and system-level affordability, and states are increasingly pushing for reform. Globally, the UK government has implemented new budget impact model policies, and China has put significant pressure on manufacturers, negotiating drug pricing down an average of 44 percent.

And those are only two examples.

In the private sector, our survey of payors showed that executives anticipate a diversification of contracting models, which opens the door for innovation. By 2025, 38 percent believe that at least a quarter of their contracts will be value- or outcomes-based, and 31 percent believe that a quarter of contracts will be built on value-based pricing.

This tells us that the rebate model isn't going away, but it will no longer be the only contracting paradigm.

These collective pressures are not lost on biopharma executives— and they recognize change is coming.

Those we surveyed in the US view regulatory and policy change as well as public scrutiny on pricing as the highest threats to profitability five years from now—a very different picture than we see today where competitive pressures dominate. Given all of this, it's time for biopharma companies to evolve their economic relationship with customers across the healthcare ecosystem.