

IMPACT OF GREXIT ON PHARMACEUTICAL PRICING: AN INTERNATIONAL REFERENCE PRICING ANALYSIS

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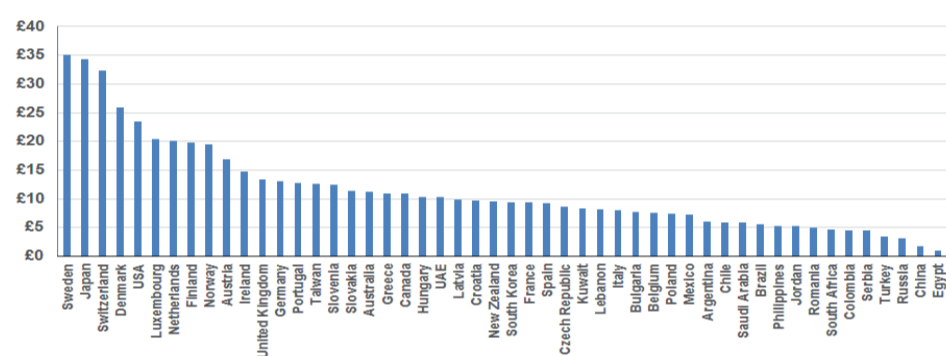
INTRODUCTION

- The possibility of Greece leaving the Eurozone is well-publicised, but its impact on the pharmaceutical industry has not been fully determined
- The majority of established pharmaceutical markets use pricing rules that reference products both across IRP (International Reference Pricing) and within TRP (Therapeutic Reference Pricing) country-lines, as effective measures to control the price of pharmaceutical products
- There is a growing need to understand how Grexit will impact pricing mechanisms through direct or indirect means, including changes that could be explored by a national ministry of health
- Parallel trade may become a significant issue with neighbouring markets attempting to secure cheaper sources of medicine, leading to shortages in the market potentially impacting patient access

METHODOLOGY

PRICES BY MARKETS WERE OBTAINED USING AGGREGATED SALES AND VOLUME DATA ACROSS RESPIRATORY PRODUCTS USING IMS MIDAS, APPLYING A WEIGHTED AVERAGE

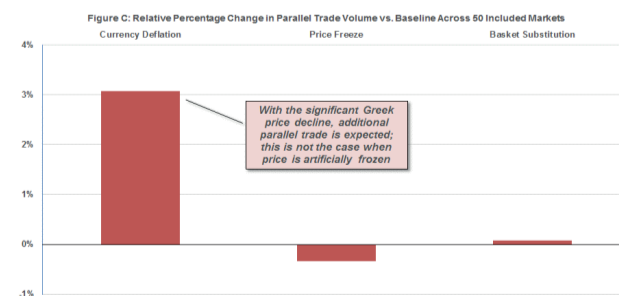
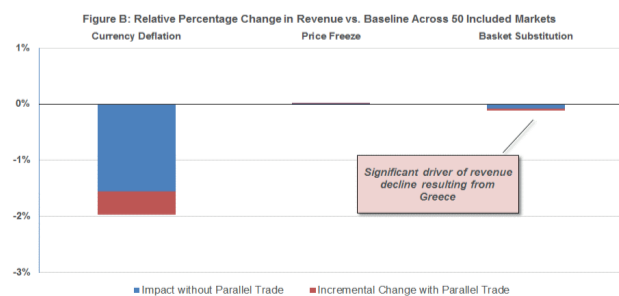
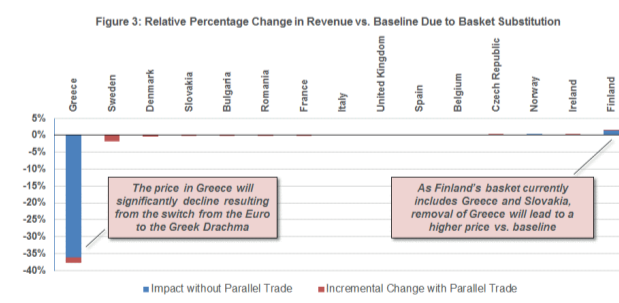
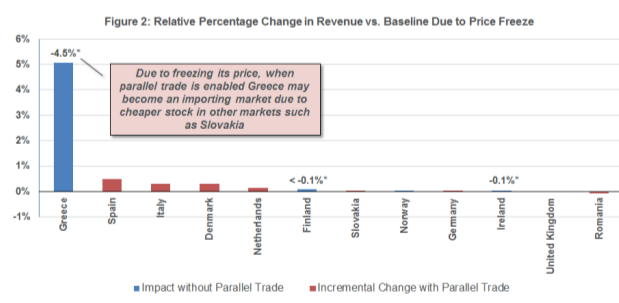
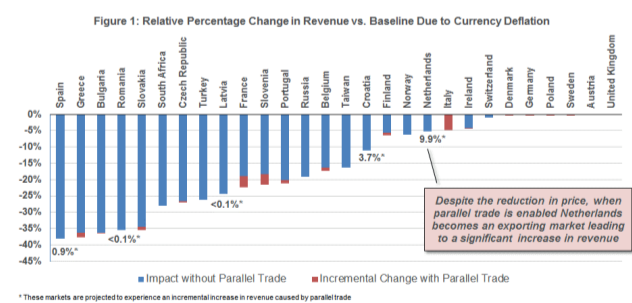
Weighted Average PTW Price of Respiratory Products by Market at Month 1



1. Navigant's PROFILE model (Pricing and Revenue Optimisation for International Launch Excellence), was used to simulate the impact of IRP and TRP, as well as parallel trade and generic entry, to quantitatively assess the impact on drug prices across 50 markets throughout Europe, North America, Latin America, Middle East and Asia
2. Respiratory products were analysed as a class to prevent a biased analysis towards particular manufacturers, assessing three potential scenarios with respect to Grexit:
 - Currency deflation of 50% in Greece resulting from a shift to the Greek Drachma
 - Artificially freezing the visible price in Greece in Euros
 - Markets pursuing equitable alternatives to Greece by updating their reference baskets with Slovakia, a replacement low-priced EU market with similar referencing rules
3. Navigant's PROFILE model analysed relative changes in revenue due to IRP with and without parallel trade; volumes were aggregated by market and flat-lined across 10 years
4. In each scenario, changes were assumed after 18 months of baseline price evolution prior to IRP-specific price equilibrium being reached in Greece. These scenarios did not test for the implications of TRP and generic entry

RESULTS

- In Scenario 1 (Figure 1), currency deflation in Greece (Figure A) causes a cumulative reduction of 1.6% in overall revenue (Figure B). Spain is the greatest contributor, representing 26% of overall decline (38% decline within the market) due to referencing the minimum price in its basket
- In Scenario 2 (Figure 2), artificially freezing the Greek price in Euros (Figure A) has a negligible cumulative impact across all markets (Figure B), with Greece representing 98% of the additional gain vs. baseline by halting its semi-annual price re-referencing
- In Scenario 3 (Figure 3), when allowing for a price collapse in Greece in addition to basket substitution, an overall revenue decline of 0.1% is forecasted (Figure B), with Greece driving 100% of revenue loss
- Ignoring for Greece, basket substitution will have the greatest impact on Finland (73% contribution of overall revenue gain) by lessening the rate of its price decline
- Despite restricting market volumes parallel traded in the model, a Greek price decline still has a significant impact when compared with other scenarios (Figure C)



CONCLUSIONS

- The effects of Grexit go beyond Greece, as it highlights the importance for the industry to artificially stabilise the Greek price in Euros as a further preventative for future exchange rate fluctuations
- Assuming a constant price can be maintained - likely implemented through negotiation of an emerging confidential rebate after structure - coordination between ministries and manufactures to execute basket substitution may not be as critical
- Without a price freeze, legislation to limit parallel trade export may be required to prevent supply shortages of life saving medicines as well as considerable decline in global revenue
- An expansive pricing model employing varying IRP and TRP rules can be utilised to assist manufacturers in developing a comprehensive pricing strategy capable of evolving over time

For more information on Navigant's Life Sciences practice,
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