

● Pune Minutes

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THE PHARMACEUTICAL INDUSTRY

The trend to greater control over the drugs budget is worldwide. mb

In Japan, the Government in March 1984 ordered an average 16 per cent cut in drug reimbursement prices, bringing the total cut to nearly 40 per cent since June 1981.

In the United States, a "cost containment programme" was introduced, and the Waxman Bill encourages the further use of generics.

In Europe, some governments have adopted the limited list technique.

Despite the pressures on drug companies, their margins are still lavish and their prices high. The UK Stock Market still thinks so: the FT table for 22 January 1984 shows that UK pharmaceutical companies' share prices were 22.4 times the earnings per share. This compared with a market average for the 500 share index of 12.6 times earnings per share. The drug companies are thought almost twice as attractive as the average share in the Stock Market, reflecting the guaranteed income they receive from Government health purchasing worldwide, and from the more than generous margins they are allowed.

In presenting the so-called cut in margin from 20% to, say, 16%, it is important to distinguish between real margin and nominal margin. To earn a 25% margin against the background of 15% inflation is no more attractive than a 15% margin against the background of 5% inflation. Nominal margins should reduce as inflation falls; real profit margins have been expanding as the rate of inflation has come down.

You may also be interested in the James Capel forecasts for the profitability of leading pharmaceutical and consumer products companies in this country:

<u>Name of company</u>	<u>Last year end</u>	<u>Historic profits</u>	<u>Prospective profits 1985/6</u>	<u>% Change</u>
		£m	£m	
ICI	12/83	619	1,175	+90
Beecham	3/84	268	365	+36
Fisons	12/83	31	54	+74
Glaxo	6/84	256	380	+48
Reckitt & Colman	12/83	89	120	+35
Smith & Nephew	12/83	45	64	+43
<u>TOTAL</u>		<u>£1,308m</u>	<u>£2,158m</u>	<u>+65%</u>

cf around 40% for companies generally

As these figures show, there is no shortage of profit amongst those leading companies in the UK with an interest

in pharmaceuticals. Note that the forecasts mainly apply to
calendar 1985, and are estimates from one stockbroker only;
but all stockbrokers are forecasting substantial increases
for these groups. Note also that the total figure is
heavily influenced by ICI, where the growth is also coming
from recovery in the heavy chemicals business.



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