Future Trends Affecting the Pharma, Biotech and Device Industries

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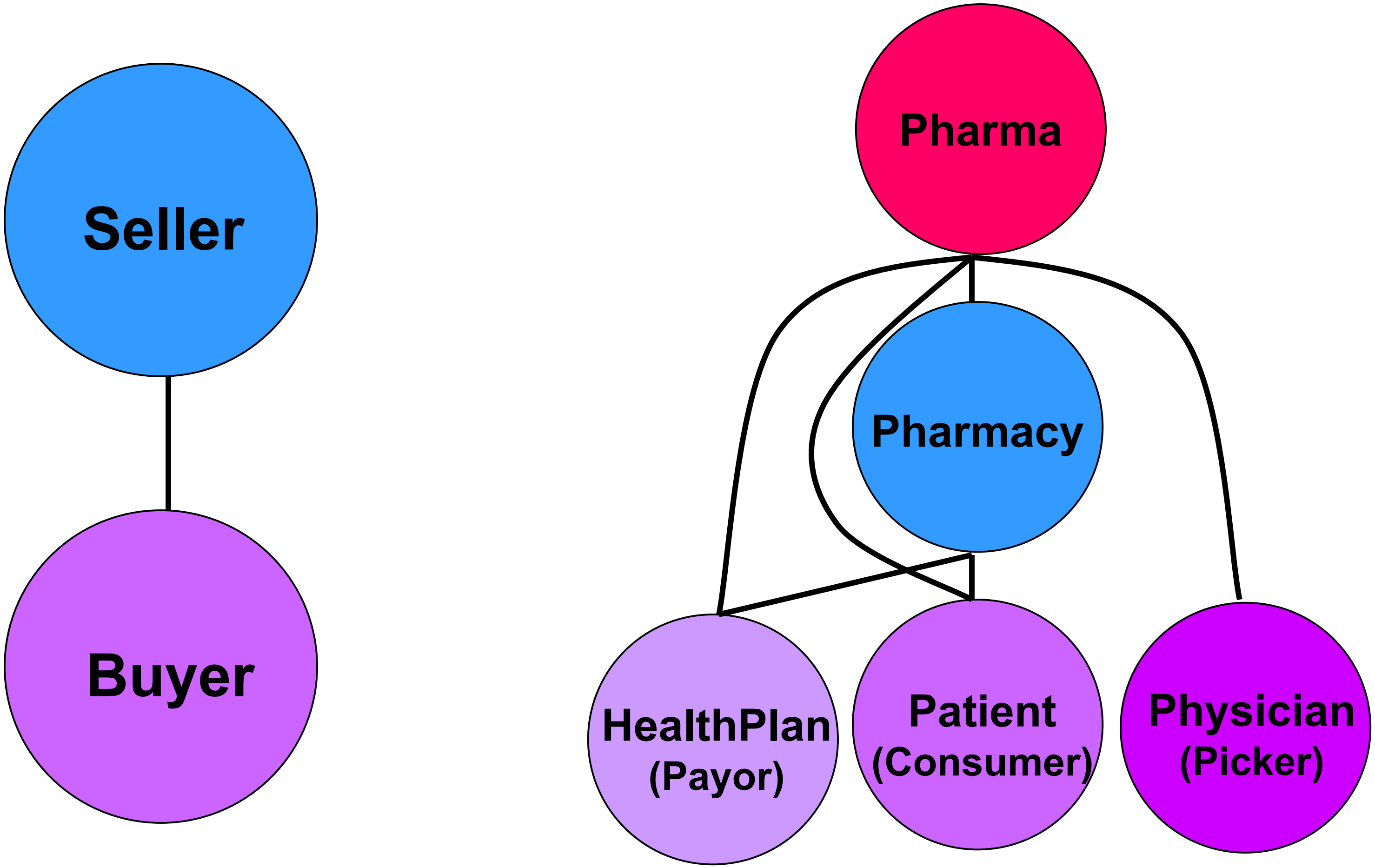
Schematic of the "Market" for Drugs



"Normal" Market

Outpatient Drug Market

Overview

The Major Trends and Their Implications

What’s Happening?

- In the doctor’s office
- In the patient’s home
- At the payor’s offices
- In the pharma research labs and offices

What are the Implications for Drugs?

- Promotion
- Pricing
- Regulation

The Doctor is In

Still the keystone of healthcare decisions

- **But busier than ever**
  - **Physicians need ways to save time and improve productivity**
    - Average physician visit with patient ~ 7 minutes
    - Average physician spends 23 minutes of each hour on paperwork
  - **Physicians need to recall increasing amounts of information**
    - More than 70% of the top drugs have been introduced in since 1975
    - Average large physician group contracts with over 15 health plans
- **And paid less**
  - Real income for physicians declined from 1996 to 2000
  - Medicare reimbursement set to decline by 5% per year under Sustainable Growth Rate formula unless Congress intervenes (again)
  - Meanwhile, costs are increasing, particularly malpractice premiums

This Drives ➡

- **Growth of group practices**
  - IPAs, etc., emerged in 1980’s
  - Scale efficiency (especially administrative tasks)
  - Patient coverage
- **Growing interest in HIT***
  - Ease of use and price are primary concerns
  - 50% use PDAs today, 25% more “plan” to own in 12 months (often 1st step)
  - 32% use EMRs with 57% interested in learning more
  - 22% use eRx with 58% interested in learning more
  - But low brand familiarity (outside of Microsoft, Epocrates, WebMD)
  - Expect positive ROI but significant transition costs
- **Less time for pharma reps**
  - 2/3 of reps report reduction in call length (50% say >20% less; avg. 3 min.)
  - 50% say harder to get to MD
  - Fewer successful details per rep (750 vs. 1450 during ’95 –2000)

***PriMed Healthcare Solutions Study 2004 Annual Report**

The Patients are Demanding More Control

No Longer Willing to Assume that the System is Working for Them

- **Still scarred from managed care backlash in 1990s**
  - Patients wary of doctors' incentives and payor influence
  - More willing to switch physicians
- **Growing responsibility for costs**
  - Out-of-pocket costs up 50% since 1995
  - Employee share of premiums up almost 10% since 2000
  - MSAs growing, but tax code still skews toward employer coverage

This Drives ➡

- **Demanding more choice**
  - Consumer-directed plans
  - Concierge practices
  - Defined contribution plans
- **Patients are participating more in treatment decisions**
  - Requesting specific medications
  - More use of alternative therapies
- **Extensive use of Internet by consumers**
  - Disease/therapy research
  - Support groups
  - Growing ability to research provider quality
- **But more uninsured**

Healthcare Costs Rising

No Bridge over the Quality of Care Chasm

- **Healthcare costs outpacing inflation**
  - Since 1970, healthcare costs have grown almost 5x faster than CPI
  - $1.9 trillion in 2005 (est.) is 15% of GDP (forecasted at 19% in 10 years)
- **Despite alarm call from IOM, quality still deficient**
  - US lags rest of developed world
  - Avoidable errors compound higher spending
- **Government as Payor is growing**
  - 45% of healthcare in the US is paid for by government
  - 32% Federal (16.9% Medicare before Part D)
  - 13% State (Medicaid is often largest budget item)
  - 1/3 of US healthcare spending is under CMS oversight

This Drives ➡

- **Innovation**
  - Quality initiatives
  - Pay for Performance (P4P) experiments
  - HIT incentives (but sometimes “free isn’t cheap enough”)

- **Consolidation and Collaboration**
  - Anthem/Wellpoint
  - Oxford/UHC
  - Building Bridges

- **Cost Shifting**

Pharma is Faced with Array of Challenges

Is the golden age over?

- **Challenges in research**
  - Not enough blockbuster drugs
  - Drugs aimed at more targeted populations (niche markets)
  - Safety issues (Baycol, Vioxx)
  - Generic entry still accelerating

- **Challenges in credibility**
  - Favorite “whipping boy” inside the Beltway, with DOJ and State AGs
  - 60% of sales reps report significant decline in industry reputation
  - Failure to publish studies or complete post-marketing surveillance
  - Reports of *excessive influence* over doctors, patients, research, medical education, FDA, NIH, Congress…

The Future of Pharma

- **More consolidation**
  - To cut costs
  - To bolster pipelines
  - To balance power with consolidating customers/constituents
- **Less reliance on the sales reps**
  - More targeted promotions
  - More use of technology – handheld and Internet
  - Continued growth in CME support (but more focused)
  - DTC ➔ Patient Education (including compliance/persistency)
- **More pressure on prices**
  - Medicare rebates?
  - Parallel imports
  - Innovative pricing schemes

The Future of Pharma (continued)

- **More regulation**
  - Greater transparency of potential conflicts of interest
  - Greater oversight with government as a larger payor
  - Continued FDA scrutiny of promotions (but not pre-approval)

- **Drug safety reform**
  - Changes at FDA (pre- and post- approval, control over label)
  - Product liability litigation (role of DTC)
  - Transparency of available information

Open Questions

- How does pharma participate in HIT growth?
- How does pharma re-establish its credibility?