

COMMERCIAL BANKING

FINANCING THE FUTURE OF THE GLOBAL PHARMACEUTICAL INDUSTRY

Philipp Gutzwiller

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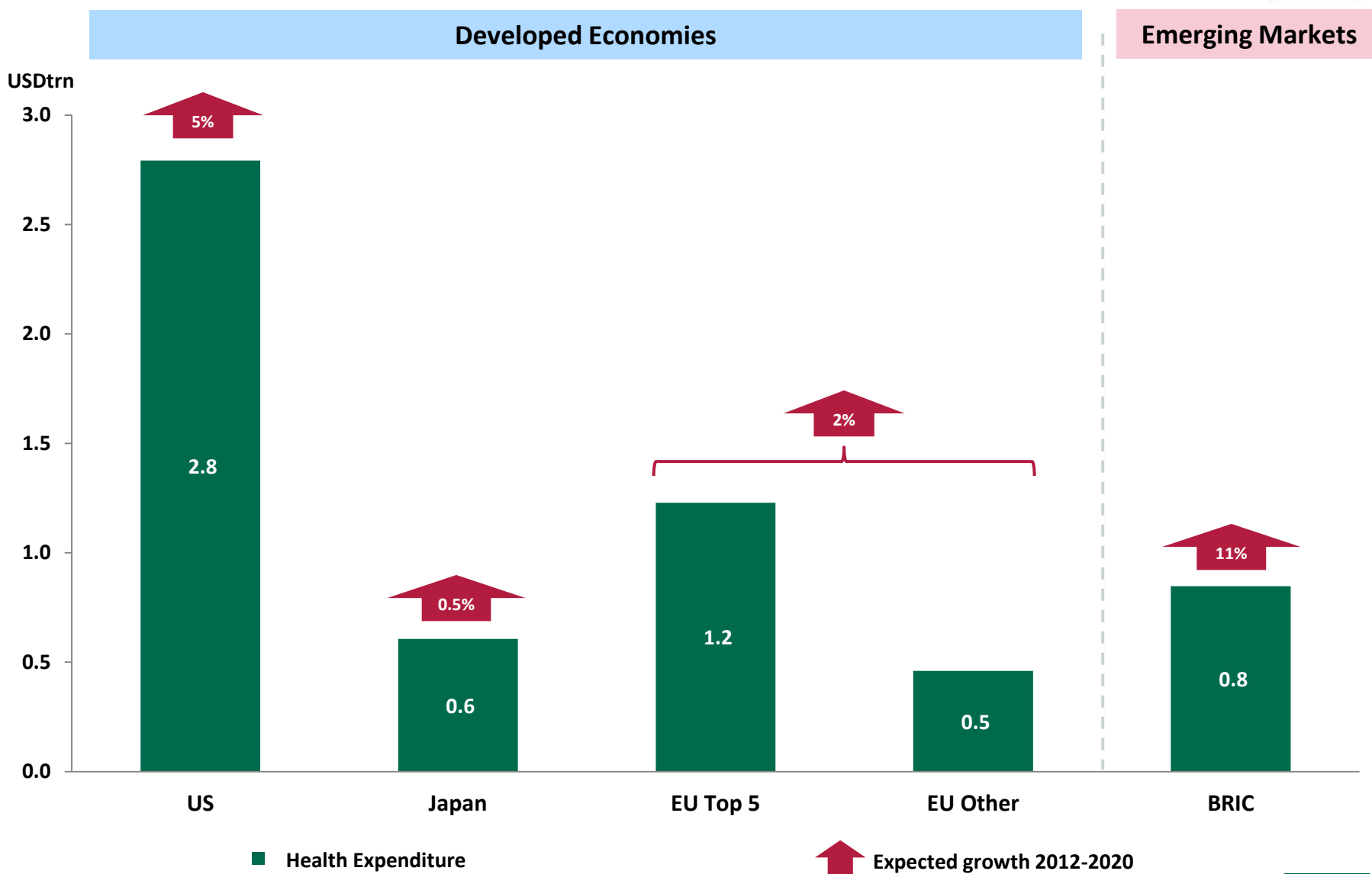
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Is the Pharma Market moving
from Monopoly to Monopsony?

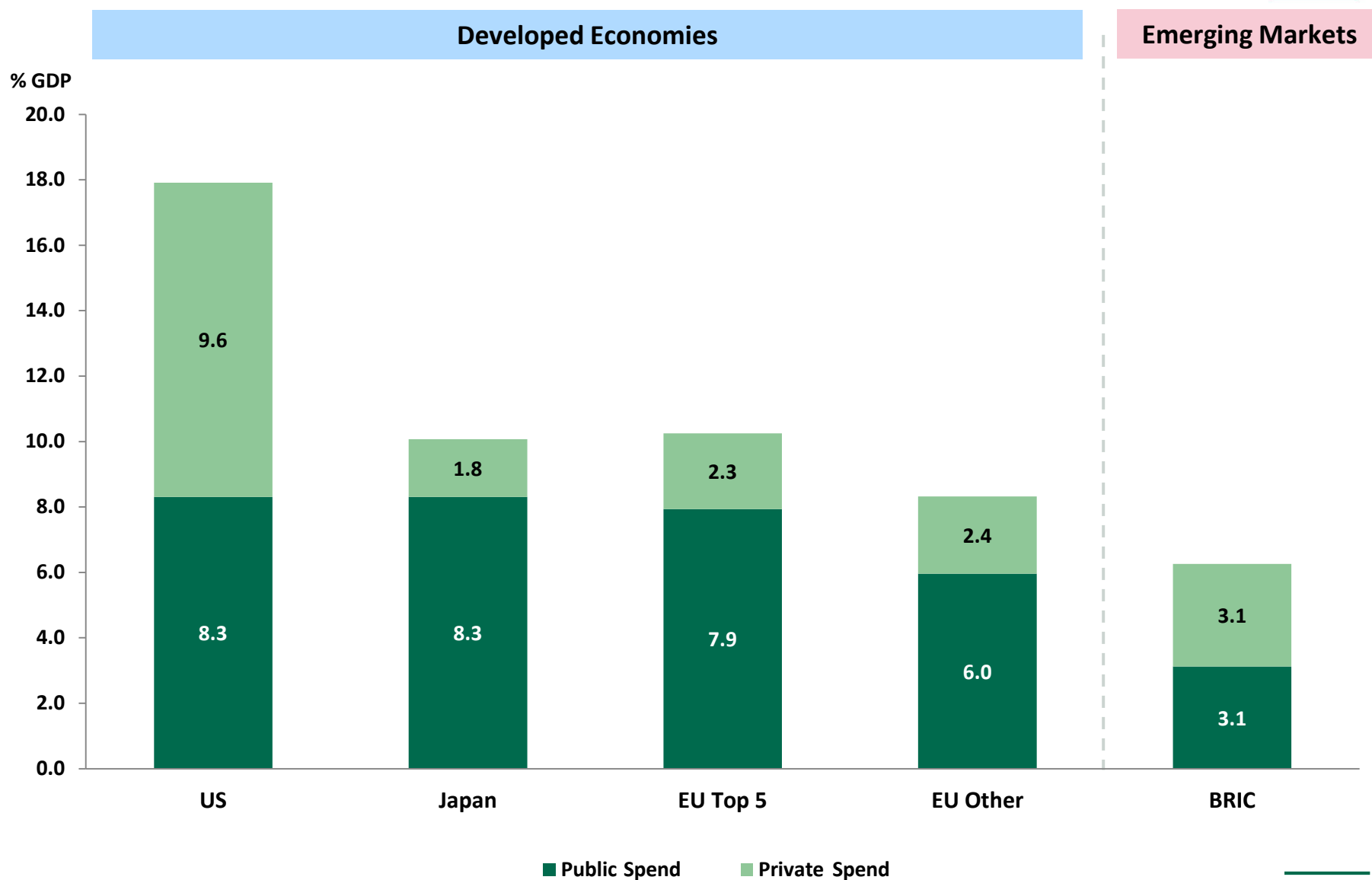


Healthcare Spend by Geography

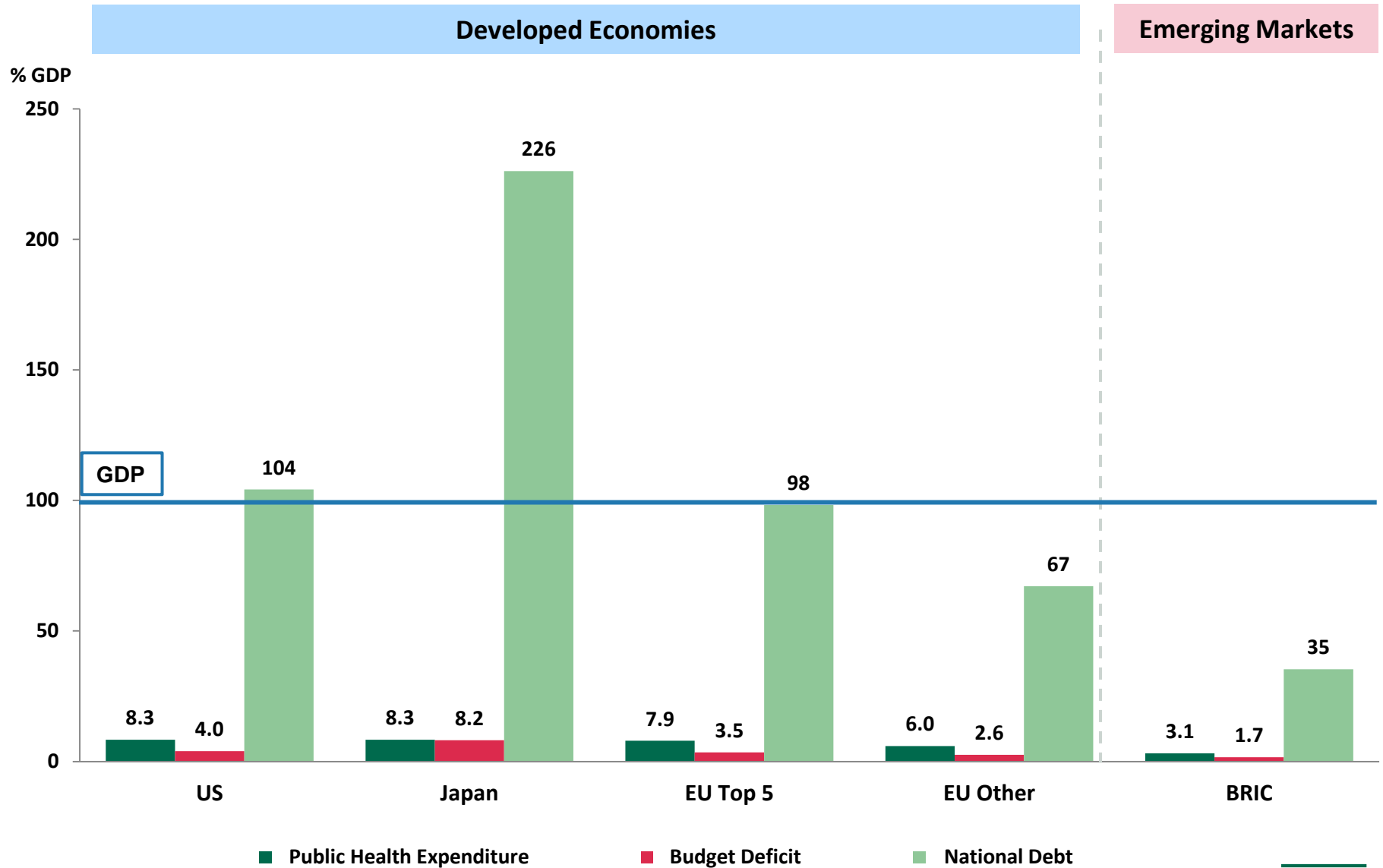




Healthcare Spend in % of GDP



Putting Government Healthcare Spend into Perspective



P&L Development for Top 10 Pharma* Companies



	2003 Today's Top 10*
Sales	\$308bn
Gross Profit %	74%
R&D Spend %	14%
SG&A %	32%
EBITDA %	28%
EBITDA	\$93bn

*Top 10 Pharmaceutical companies by Sales in 2013; Adjusted for major acquisitions & divestures

Sources: S&P CapIQ; Top 10 Annual Reports; Evaluate Pharma; Bloomberg, Lloyds Estimates

P&L Development for Top 10 Pharma* Companies



	2003 Today's Top 10*	2013 Today's Top 10*	CAGR
Sales	\$308bn	\$470bn	+ 3.9%
Gross Profit %	74%	67%	
R&D Spend %	14%	13%	
SG&A %	32%	23%	
EBITDA %	28%	31%	
EBITDA	\$93bn	\$145bn	+ 4.1%

*Top 10 Pharmaceutical companies by Sales in 2013; Adjusted for major acquisitions & divestitures

Sources: S&P CapIQ; Top 10 Annual Reports; Evaluate Pharma; Bloomberg, Lloyds Estimates

Thesis #1



Observation

Buyers are applying purchasing power.

Impact

Margins and cash flows will come under pressure.

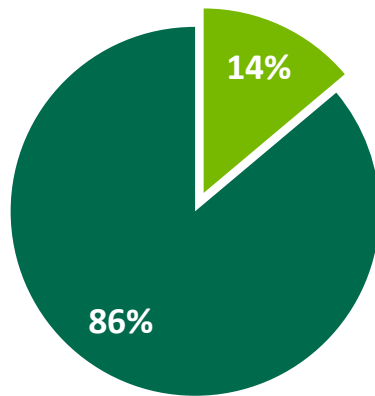


More Volatility, Anyone?

Importance of Emerging Markets

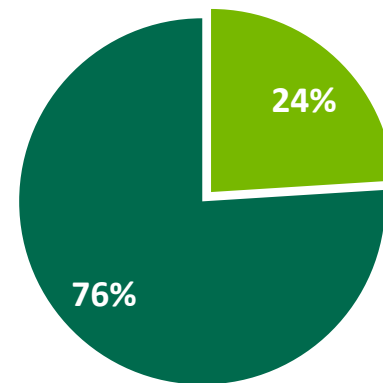


2008



**Total Sales
Top 10 Pharma**

2013

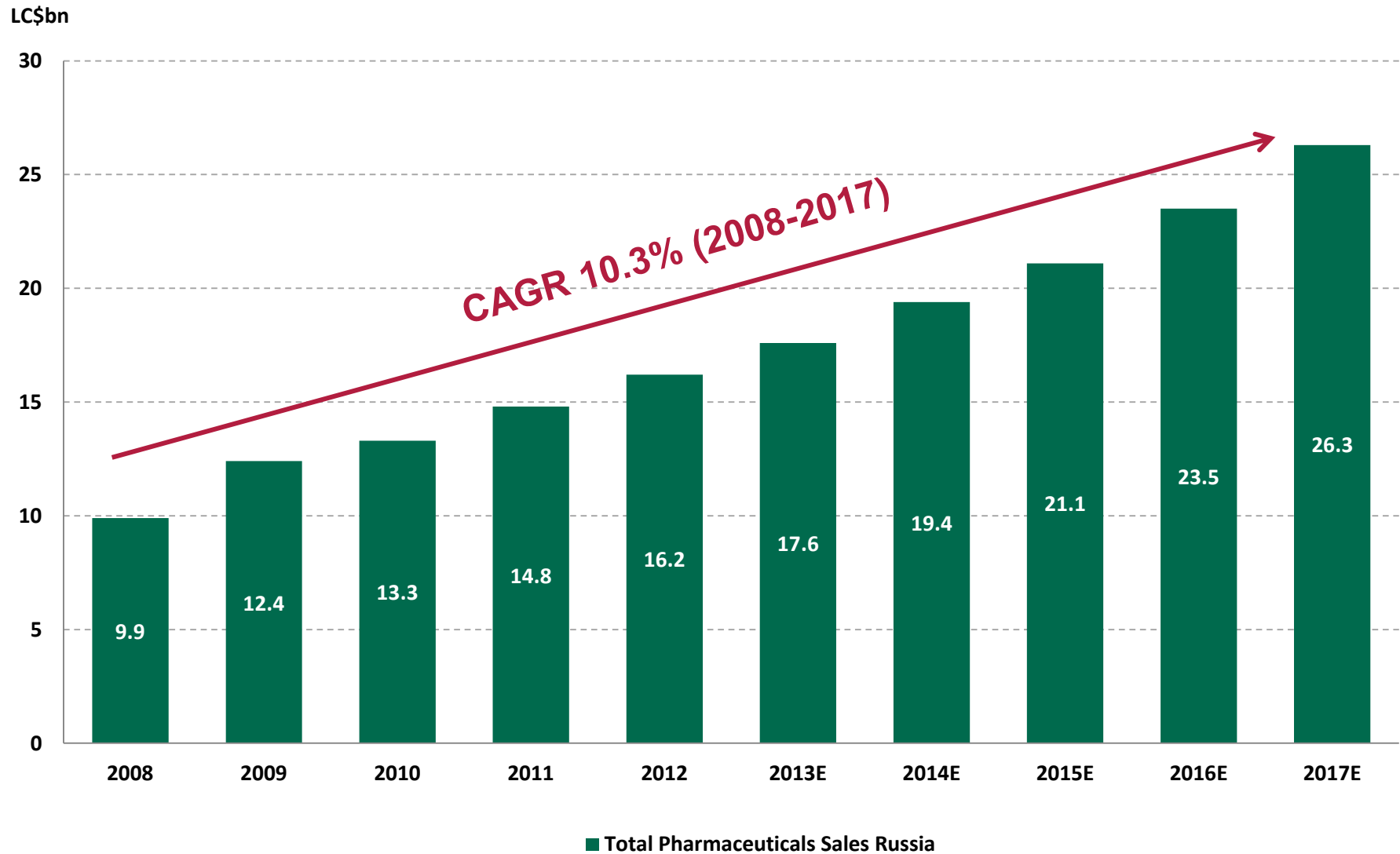


**Total Sales
Top 10 Pharma**

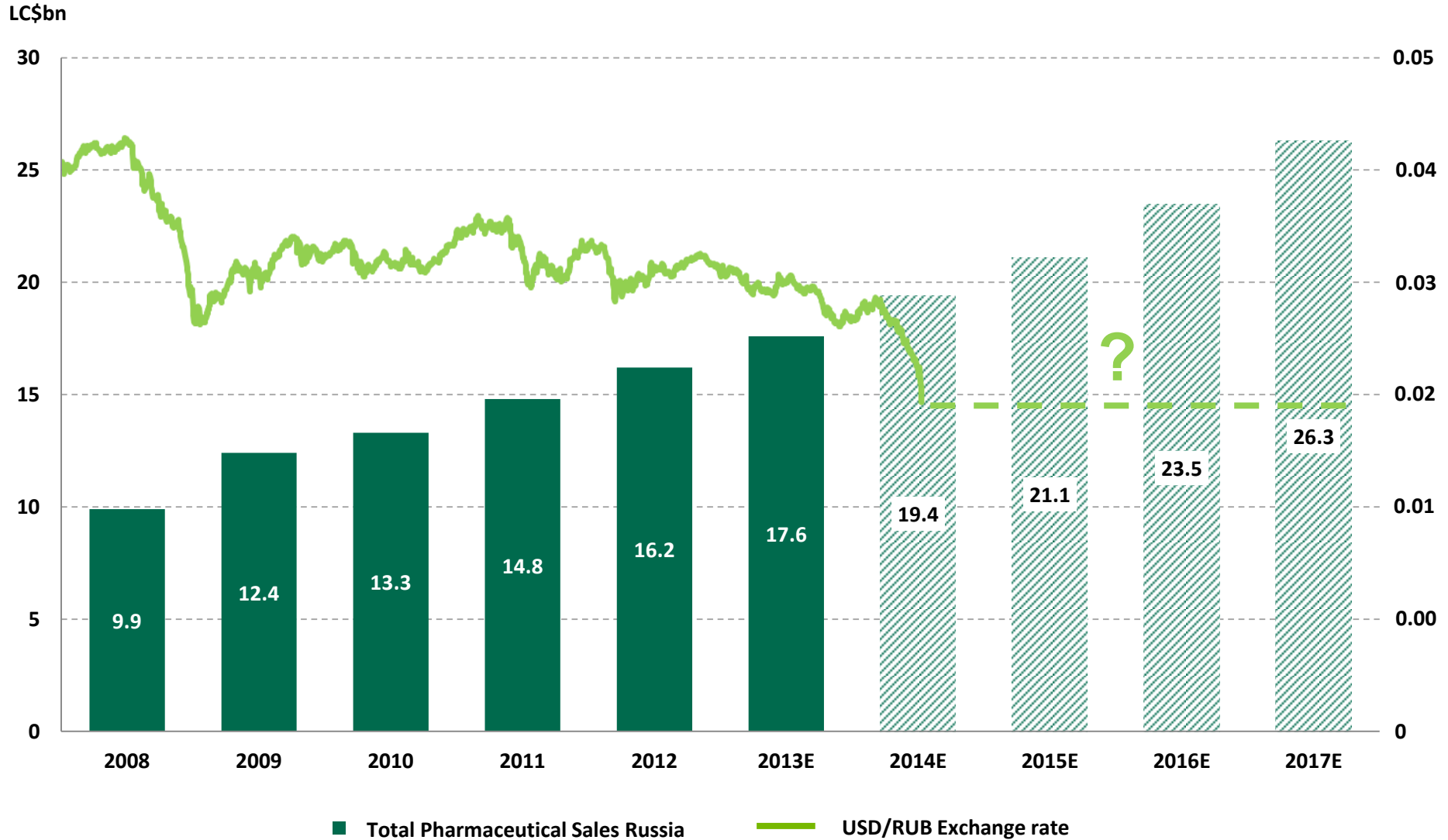
■ Emerging Markets

■ Developed Markets

Russia - Who would have thought?



Russia - Who would have thought?





Observation

Emerging Markets are here to stay.

Impact

Increased volatility will need to be managed.



Can Pharma afford the Cost of Growth?

The Cost of Growth...



	2003 Today's Top 10*	2013 Today's Top 10*	CAGR
Sales	\$308bn	\$470bn	+ 3.9%
EBITDA	\$93bn	\$145bn	+ 4.1%
Net Debt	~0	\$55bn	
No. of Employees	963k	926k	
Dividends Paid	\$23bn	\$48bn	+ 6.7%
Market Cap	\$1,400bn	\$1,600bn	+ 1.2%

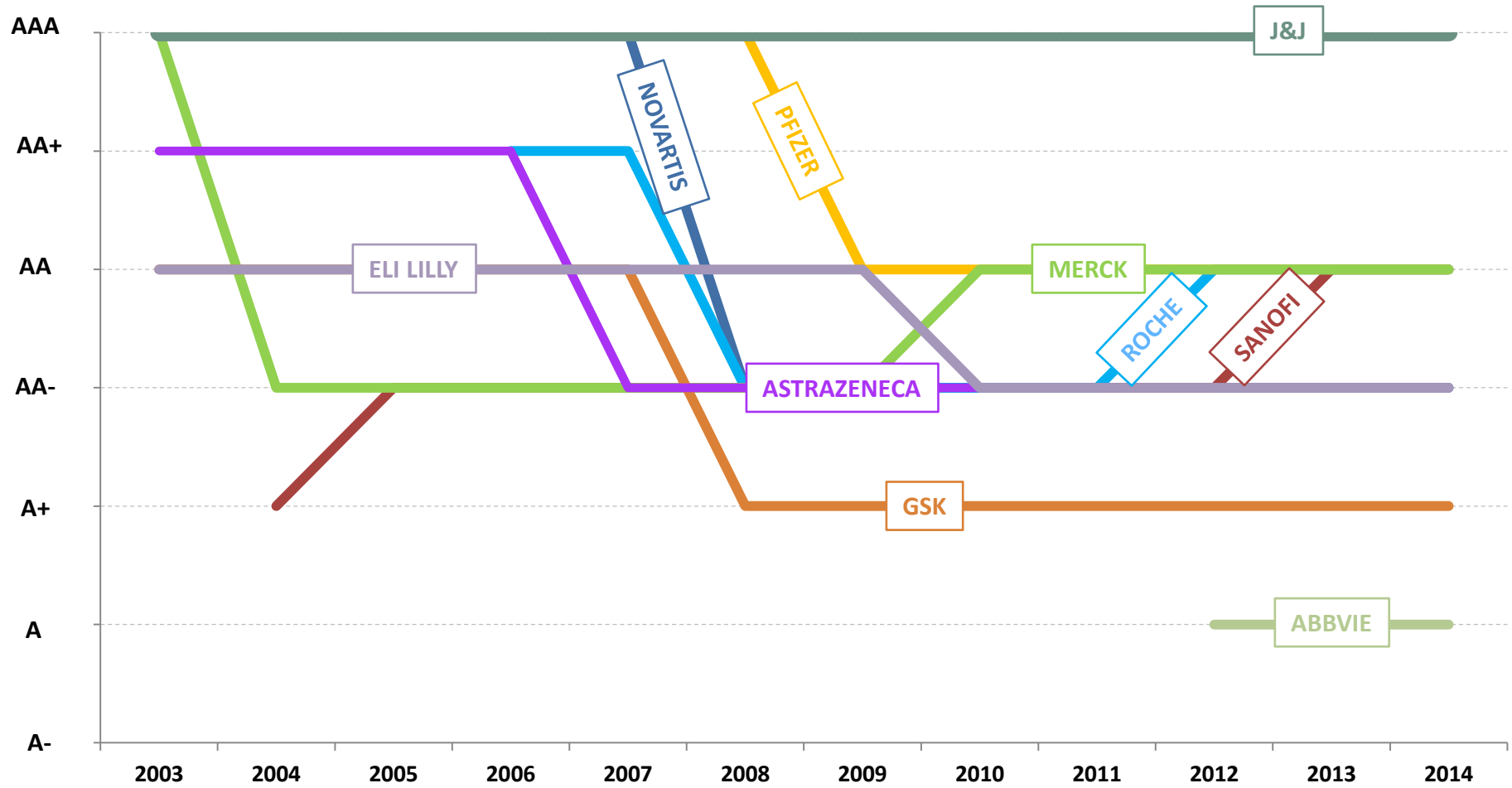


Share Buy-Backs	\$255bn
Dividends Paid	\$380bn
Net Cash for M&A	\$245bn

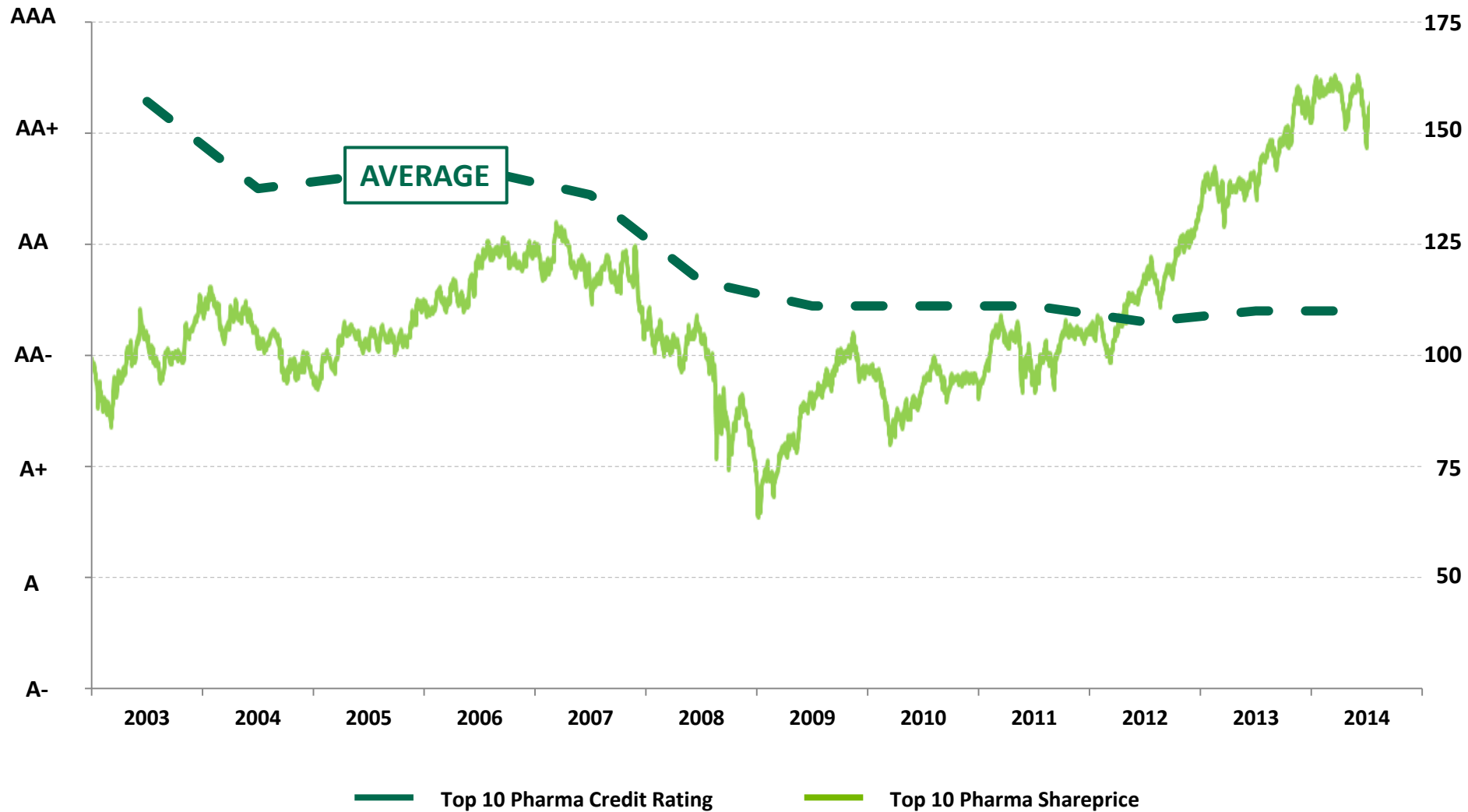
Total Outflow **\$880bn**

*Top 10 Pharmaceutical companies by Sales in 2013; Adjusted for major acquisitions & divestitures

...Has put Pressure on Credit Ratings...



...But Shareholders are loving it!



Thesis #3



Observation

Shareholders expect growth AND return of cash.

Impact

How long is this sustainable for?

Possible Solutions



Defensive

- *Cost reduction*
- *Mega mergers*
- *Increased outsourcing*
- *Divestment of non-core assets*



Neutral

- *Market-based risk mitigation*
- *Break-up of corporate structures*



Innovative

- *Alternative pricing models*
- *'Emerging Markets First' policy*
- *Ruthless application of digital technology*
- *Crowd funding*



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