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The Zocor Effect

Possible fallout across the entire pharma/biotech competitive spectrum

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We all know that Merck's statin blockbuster *Zocor* came off patent in the U.S. in June 2006. It's too big a news item to have been missed. While predicting future corporate strategies are difficult, you can bet generic *Zocor* hitting Pfizer's bottom line profits will force Pfizer to review its complete portfolio strategy from *Accupril* to *Zyrtec*. In light of this series of events, you need to pay attention to the other competing forces bearing down upon all drug producers.

Zocor's price is expected to plummet 80% as generics move in. Since *Zocor* competes directly with lower dose formulations of Pfizer's *Lipitor* which made \$12.2 billion in global sales in 2005, or 24% of total corporate sales, this could have a dramatic impact on Pfizer sales and profits.

Everyone expected *Lipitor* to come under attack in Q3 following *Zocor's* loss of patent. Few expected that it would happen well in advance of June.

The Formulary Factor

What caught everyone off guard was Express Scripts' announcement in April that it was moving *Lipitor* off its preferred formulary listing and raising co-payments. The result was to push physicians and patients towards *Zocor* before it came off patent. According to IMS data, *Lipitor* lost 2% of statin market share, and its share of new prescriptions dropped from 40% to 35% in May, one month prior to losing patent protection.

With drug costs continuing to rise at double digit rates and the U.S. managed care industry desperately trying to get costs under control, it has become very clear that few healthcare organizations will pass up the opportunity to cut costs; many will try to switch patients to generic *Zocor*. As WellPoint Inc.'s chief pharmacy officer Robert Seidman said, "These are some of the greatest cost-savings opportunities of the decade." ["Expiring drug patents provide opening to promote generics; Cost savings may be major," Business Insurance, July 17, 2006]

Up to 80% of *Lipitor* sales is at risk ... this is the low dose usage segment that *Zocor* can potentially replace. This segment of *Lipitor* sales in the U.S. adds up to nearly \$6 billion ... 12% of Pfizer's global sales, or 50% of global annual profits before taxes.

Interestingly so far this year, Pfizer has reported a 3% annual growth in U.S. *Lipitor* sales in Q1 and 10% in Q2. Therefore, to date, Pfizer has managed to mask the inevitable downward pressures on *Lipitor* sales. Pfizer has partially done this through price increases. According to AARP, Pfizer increased *Lipitor's* price by 4.7% to 6.5% for the first three months of the year. With the U.S. market totally focused on how to contain drug costs, Pfizer may find it difficult to continually increasing *Lipitor's* prices and may well have to look for other ways to cover any shortfall in its revenues.

The Question is How Will Pfizer do This?

To some extent, Pfizer's former CEO McKinnell laid the ground work in 2005 with his cost cutting "Adapt to Scale" strategy aiming to save \$4 billion a year by 2008, much of those savings coming from cut backs in sales and marketing. That would potentially fill all or most of any *Lipitor* profit gap. Pfizer can also increase prices on products other than *Lipitor*. So the impact of *Zocor* going off patent will potentially impact any indication in which Pfizer has a strong presence ... and that includes most major pharmaceutical markets. Sales forces could be trimmed and/or product prices may increase above the norm.

The most likely candidates for cost cuts in Pfizer's portfolio are me-toos or products with safety concerns – calcium channel blockers, COX-2s, or SSRIs. Products that could find prices being hiked are more likely to be well differentiated in specialist areas of the market like oncology or ophthalmology. As far as where these changes might be applied, it will be easier to both cut back sales and hike prices in the U.S. rather than globally. A major short-term strategy to fill any revenue shortfall from *Lipitor* would be the acquisition of a medium sized firm with a very strong global portfolio, but that would come at a premium and Pfizer will probably be very careful not to rock the stock market by doing anything too risky.

So have you truly thought through the potential implications of Pfizer having serious revenue growth issues over the next one to two years despite having a new CEO on board? What effect might this have on your products and product candidates ... whether anti-infectives, anti-hypertension, analgesics, antidepressants or even oncology products; and are you monitoring the environment to see if this is happening in your key markets? You need to look out for these intelligence signals – before the door shuts.

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