Generic Injectable Drugs Get a Boost

Guggenheim Securities says pricing will improve in 2014 and beyond.

Guggenheim Securities

Given the debate surrounding generic-injectable-drug pricing and manufacturing capacity, we conducted a deep dive on both topics.

Our diligence suggests that generic-injectable-drug pricing will continue to improve in 2014 and beyond, and that generic-injectable-drug capacity will be constrained for the foreseeable future.

This is most positive for the standalone generic-injectable-drug companies in our coverage universe: Hospira (ticker: HSP), Sagent Pharmaceuticals (SGNT); and Akorn (AKRX). Mylan (MYL), Teva Pharmaceutical Industries (TEVA) and Actavis (ACT) also have injectable businesses. We increased our price target for Hospira to $53 from $49, driven by multiple-expansion, as we believe its growth prospects are now better than we had anticipated.

Key points that we believe support our investment thesis:

• Large players Novartis’ (NVS) Sandoz, Hospira, APP [a unit of Germany's Fresenius Kabi] and Mylan’s Agila have Warning Letters to resolve, and Ben Venue exited the market.

• The U.S. House of Representatives’ Committee on Oversight & Government Reform noted that regulatory activity shut down 30% of manufacturing capacity at Bedford Laboratories [a unit of Boehringer Ingelheim], Hospira, Sandoz and Teva.

• It will take years to rebuild and expand capacity. Hospira’s Vizag, India, facility will start to come online by the end of 2014; Akorn expects U.S. approvals from Kilitch, India, starting in 2016 or after; and Sagent’s SCP facility in China will not be profitable until 2016 or after.

• Use of injectables has increased but capacity has not. Obama’s Executive Order on shortages noted that the use of injectable cancer treatments has increased by about 20% without an increase in capacity.

• Not all capacity is created equal (oncology, antibiotics, ophthalmology, etc.).
• In its October 2013 Strategic Plan to Mitigate Shortages, the Food and Drug Administration encourages buyers to work only with high-quality manufacturers and/or include "failure to supply" clauses in purchasing contracts.

• Congress may reform the way Medicare pays for drugs to better reflect supply and demand, but generics need to push harder on this, according to government officials.

• Sagent notes that pricing would improve if group purchasing organizations (GPOs) considered price and supply in their bids. We will get more details when the MedAssets (MDAS) and Health Trust bids are decided in second-half 2014. Also, Novation and Premier (PINC) bids are due in 2015.

• Some of the overseas drug-shortage suppliers, like Agila, are now having issues of their own, and this could continue with increasing FDA scrutiny of foreign drug manufacturers.

-- Louise Chen
-- Swati Kumar

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