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# Generic Injectable Drugs Get a Boost

*Guggenheim Securities says pricing will improve in 2014 and beyond.*

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### 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.).

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• 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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